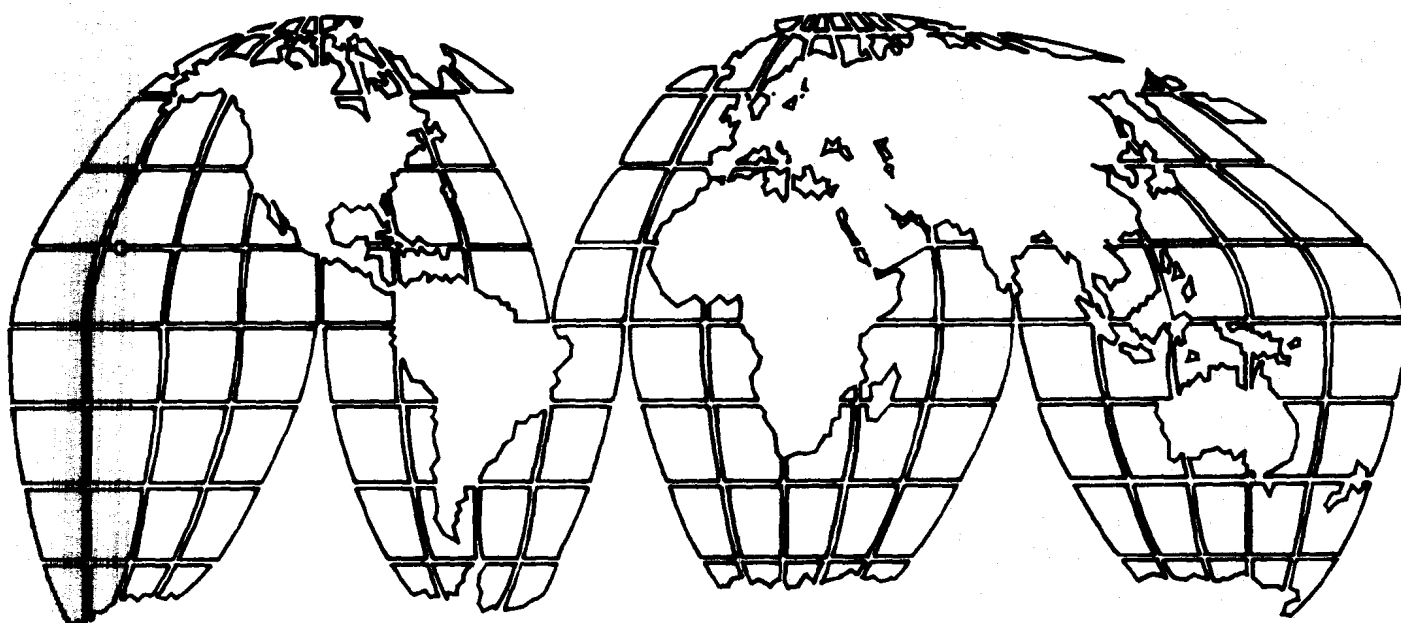


A.I.D. Evaluation Special Study No. 16

# **THE PRIVATE SECTOR: The Dominican Republic**

BEST AVAILABLE



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**PRIVATE SECTOR EVALUATION:**

**THE DOMINICAN REPUBLIC**

**A.I.D. Evaluation Special Study No. 16**

by

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**June 1983**

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FOREWORD

In February 1982, the Administrator of the Agency for International Development (AID) requested that the Bureau for Program and Policy Coordination, through its Office of Evaluation, initiate a series of studies examining the contribution of past AID efforts to strengthen the role of the private sector in the development process. As part of the first phase of this effort, four countries -- Malawi, Costa Rica, Thailand, and Cameroon -- were selected for in-depth evaluations of the central issues surrounding this question. In addition, several special studies on topics of interest were carried out. These topics reflected issues which emerged while planning for the country studies. Synthesis reports comparing the central themes investigated in the country studies are available.

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## PREFACE

The purpose of this study was to examine the impact of Dominican Republic Government policies and programs and of related Agency for International Development (AID) and other donor interventions on national economic development through the strengthening of the private sector. Particularly emphasized was an evaluation of the impact and effectiveness of AID's efforts to promote the role of the private sector in development. A still sharper focus was on the linkages between financial institutions (credit) and management and skills training in furthering private sector activities.

With a clear understanding that the analysis was to concentrate on the relationships between training and loans for private sector development projects and on AID's role therein, the evaluators were asked to put that examination in context by briefly reviewing the general economic circumstances surrounding Dominican development that may have fostered private sector development, and the effect of national policies, to the extent that they modified natural economic circumstances, on private sector growth and on the relationship between finance and training.

Finally, the evaluators were asked to assess the impact of close credit-training coordination on development in the Dominican Republic and, if this impact were to be found strong, what lessons may be derived from the Dominican experience for other countries.

The examination outlined above was conducted by three Development Associates staff members during a 3 1/2-week stay in the Dominican Republic. The study team was hosted by USAID Santo Domingo, which most generously gave of its staff's time, its archives, publications, reports, and other documents, and made the introductions for the team's visits to more than 30 Dominican institutions in Santo Domingo, the region around it, and the North Central Region. The general scope included agencies of the Dominican Government, United States and other donors, private and public educational and research organizations, private and public financial institutions, and industrial and agricultural enterprises. These institutions in turn gave most generously of their time and documentation. The team's difficulties were not in obtaining information either orally or in documents, but in assimilating the several dozens of discussions held and the 116 reports collected.

After 3 1/2 weeks in the country, the study team returned to Washington and in an additional period of 10 days wrote this report, using some draft material that had been prepared while the team was still in the Dominican Republic.

The report comprises five main sections. Section I contains background material on the climate for international collaboration to strengthen private sector development and relevant history, geography, and economic factors, including national public policy relevant to private investment. These provide the context in which the Dominican Republic and its private sector need to be reviewed by AID and other donors.

Section II describes the institutional framework for strengthening private sector development and selects key institutions to highlight. It shows how three kinds of institutions interact to make possible the growth the private sector has achieved: (a) lenders, (b) training and technical assistance in institutions, and (c) promoters of Dominican groups (a) and (b) that act to bring about change and development much as do external donors like AID.

Section II also describes the programs and external donors other than AID and concludes with a statement on the AID program as it relates to private sector development.

Section III contains case studies of 10 lending institutions (selected from approximately 50) and their approaches to linking training to lending. These 10 represent over three-fourths of the gross lending level for development in the private sector, excluding the commercial banks, whose role is fixed and limited and beyond the purview of this report.

Section III covers four financieras (the two largest and two others), two commercial banks, and four public sector banks serving the private sector.

Section IV contains descriptions of 14 institutions providing training and technical assistance. These are strictly educational, training, and advisory service entities that serve the lending institutions. While two lending institutions have their own training and technical followup programs, the rest rely on the structure and the agencies described in Section IV. They all work together. The entire system of private enterprise development relies on the framework of training institutions for the creation of an adequate pre-employment pool of trained person-power. Additionally, Section IV shows how the work of the 14 training and technical assistance institutions ties into the capital investment programs that are dependent on them for success.

## SUMMARY AND CONCLUSIONS

With the death of Trujillo in 1961, the Dominican Republic became substantially a free economy as well as a democratic society. With the exception of the Trujillo family holdings that were inherited by the Government and had to be operated as Government enterprises, the economy was, by 1962, in the private sector, and private sector development and initiative were strongly encouraged. The country is relatively rich in resources--arable land, water, minerals, and forest products in particular. Gross Domestic Product (GDP) grew from 887 million Dominican dollars in 1962 (RD\$1=U.S.\$1) to over RD\$7 billion in 1980. The environment was congenial to private enterprise, and it was private enterprise that substantially achieved that impressive degree of economic growth.

Growth slowed after oil prices went up in 1973 and slowed further when export crop prices started dropping in the late 1970s. Today the country is seriously affected by the world-wide recession, and growth has slowed almost to a plateau. There was a foreign exchange shortage and a public accounts deficit in 1982, but these problems are being resolved, with International Monetary Fund (IMF) help, ahead of the average rate of recession recovery. The foreign exchange shortage is seriously hurting private sector growth. However, the creativity in the private sector that emerged in the 1960s is still strong, and the institutions it spawned have been slowed but far from stopped.

The national public sector policy of letting the private sector seek its own solutions, and encouraging it to do so, resulted in the private sector's defining the central role of training in the capital lending process. Training has been viewed as paramount since 1962, and the entire private sector effort has been based on the principle that a financial institution must train before lending and an enterprise must be trained before borrowing.

Some national policies have been constraining. They are such familiar ones as the favoring of price controls biased toward consumers and taxing exports as a revenue source. Unnecessarily cumbersome control procedures have impeded private sector efficiency and profits.

On the other hand, since 1962, there has been an underlying sense of partnership between the public and private sectors. There are no doctrinal issues between them, and they often collaborate on specific programs.

AID has definitely encouraged the private sector, financed it, and urged the public and private sector to work together.

It has assisted this by channeling scores of millions of dollars through the Government for private sector end-use. AID has also assisted private sector institutions directly and has been instrumental in the creation of many.

AID's basic goal has been to promote equitable growth through major new capital investments in the private sector. To work effectively, this requires linking lending to credit-worthiness through training borrowers before they borrow, and helping them function after borrowing. AID has helped create a strong institutional framework and process to effect the implementation of this principle.

The only lasting impacts of the private sector effort have been on those entrepreneurs that have prospered because they trained before lending. Most of the GDP growth--over sevenfold in 20 years--is attributable to the successful private sector ventures that emerged in that period, encouraged and aided by the Government and AID, often working in concert to promote the private sector.

The Dominican experience clearly shows that investments that are planned soundly to assess and meet training and technical assistance needs prior to lending bring profitable results. The two principal private financieras have delinquency rates of close to zero. Conversely, the principal Government financiera, which does not link training to lending, is deeply in the red. Both this basic principle of meeting training and technical assistance needs prior to lending and the specific techniques by which Dominican lending institutions implement the principle are well worth transferring to other countries.

Also of interest beyond the Dominican Republic are (1) the Investment Fund for Economic Development (FIDE) mechanism of the Central Bank, through which AID and other donors often work, and (2) the Agricultural Credit program.

### Principal Findings

1. Without a doubt, the most important single element in the success of the Dominican experience has been the integration, at both the program and the project levels, of training, technical assistance, and capital assistance. The Dominicans assign the lowest priority to capital assistance because they believe that loans are not likely to result in successful ventures unless prior training needs and ongoing project needs for continuing training and technical assistance have been assessed. The Dominicans see a complex but clear continuum of

interrelationships from education to the functioning of invested capital. In essence, these principles are the following:

- An adequate educational system base is essential. Ideally, this includes a full national system of education. As a practical minimum, it means targeted vocational education aimed at meeting the needs of agriculture, commerce, and industry to ensure the existence of a pool of pre-trained persons, available to be hired. The establishment of an institution to do precisely that was one of the first steps taken by Dominican leaders when they joined together to promote the private sector in the early 1960s.
- When an entrepreneur decides to initiate or expand an enterprise, the projected plans must be reviewed by competent technical advisers provided by the prospective lender, the borrower, or both. Assuming that the normally considered issues are resolved favorably (e.g., market, materials supply, cost-price ratios), an assessment must be made, before the project starts, of the training needs of the people to be involved in the program. These include inservice training, upgrading kinds of training, and identification of key personnel for longer term training.
- A plan for followup technical assistance, approved by both lender and borrower, is necessary.
- Only at this point, assuming that all has gone well, would the loan be made.

Thus, the loan becomes the instrument that puts into motion machinery that is already in place. Thereafter, the key elements become followup technical assistance, evaluation, and course corrections based on these.

While the theory is not new, what is exceptional is that most of the Dominican Republic's industry, commerce, and development funding institutions really follow it. In summary, there is a network of training and technical assistance institutions dedicated to serving lending institutions, which they do for the most part in a very smoothly integrated way. A financiera only has to believe in the system to reach out and secure the resources it needs to make the system work.

Although these resources exist, two of the largest financieras have such unique problems that they have built training and technical assistance structures into their own organizations. The Dominican Development Foundation has done so because its work is with the most difficult kinds of projects--very small projects of high risk with investors at the lowest

levels of education. Financiera Dominicana initially created its own program because its overall operation was so large. It has now spun off this technical unit, making it semi-autonomous and available to others but still very much beholden to its founder.

2. There is a spirit of community cooperation that pervades the private sector. This cooperative spirit is not only widespread, it operates in two ways that reinforce each other and the development process in general. Elements of the private sector join together to carry out projects for their own ends and good. The schools, the financieras, the foundations, and the universities are examples. Private sector cooperation also extends to helping many in the lower strata of the economy and society to better themselves. The degree of this spirit of concern for those less affluent is unique in the evaluators' considerable experience in Latin America, which together totals over 70 years.

The Dominicans' concern for the strata below appears less to be patronizing than a deliberate reaching down and lifting up in order to broaden the base of their economy--a policy of enlightened self-interest. They understand the pyramid concept, and they understand that it is weakest at its broad base. The leaders in the more affluent strata recognize that this is their problem as much as the country's national economic growth is their problem, and their responsibility and opportunity.

3. The Dominicans have a distaste for the doctrinaire. They face with calm a difficult problem like public versus private ownership of industries that they know could give rise to strong irrational emotions and doctrinaire views. However, they do not see this as an issue. Dominicans tend not to have preconceived reservations. In fact, foreign aid and foreign technicians are more warmly received and appreciated in the Dominican Republic than in many other countries. The accomplishments of external aid agencies are extolled, not hidden. Dominicans are pleased with joint achievements. All this is pertinent because it helps to make external economic assistance, and the counterpart related to it, more effective. Where such assistance has been as extensive as in the Dominican Republic, this is of some importance.

4. There is a fundamental belief in the society, not just among the leaders of commerce, industry, and government, but among all people, in education--all education. Expenditures on education, public and private, reflect this belief, and while the expenditure levels of developed countries have not yet been achieved, the Dominican record is better than many. A literacy rate that is 70 percent and still rising is a respectable achievement, especially in comparison with many other

developing countries. A society's abiding belief in education correlates highly, in long-range terms, with success in economic and social growth.

5. Dominicans have a thirst for imported new technologies, especially in big, modernized industry, commerce, and agriculture. Just as this small economy, if it is to grow, needs to broaden its income base by progressively eliminating poverty, stratum by stratum, so it also needs to raise the technological levels of its products, especially those for export.

Here the Dominican Republic's top producers are already sophisticated enough that new technologies and new technical developments mean the latest in world-class, developed-country technology. Dominican Republic institutions are involved in technology transfer, both in the export sector and, more important to them, in the importation and stockpiling of science and technology information. Key institutions in this connection include the Financiera Dominicana, the Institute of Higher Education, the Catholic University, the Superior Institute of Agriculture, and the Dominican Development Foundation. All of these are assiduous accessioners, cataloguers, and purveyors of new technical data.

6. At the same time that (5) above is true, it needs to be said that the Dominicans have sought new technology, calmly and quietly, as they believed they needed it. They did not seek to introduce the highest technologies in industry and agriculture 20 years ago, or 15, or 10. They introduced each new procedure one step at a time. They did not emphasize costly new universities until their emphasis on junior colleges and technical schools had run its course and begun to be insufficient. They maintained contact with the worlds of science and technology by steadily sending qualified persons to the United States and other countries for advanced degrees. Now, without fanfare or doctrinal announcement, the Dominicans are quietly becoming consumers of top technology inputs and are soon to produce top-of-the-line products of unusual quality, while at the same time strengthening and broadening the foundations of their national economic pyramid.

7. AID's role has been central to the success of the entire process of promoting private sector development. The Mission's relationship may be unique in that U.S.-Dominican relations in general have been so friendly, but it is a far from unprecedented relationship. USAID Santo Domingo and the Dominicans have for 20 years taken full mutual advantage of the congenial ambience they share. As the report notes, it has been the Dominicans who have structured and carried out their own development program. They have taken the initiative. But

AID has been sensitive and responsive to their needs. As program and project design became more complex, with new projects having to be related to older ones, and with gaps in strategy becoming revealed, AID technicians often made crucial creative contributions to program and project conceptions. In addition, in the cases of housing and savings and loan associations, each of which proved to be natural institutional innovations for the country, AID had the resources of similar industries in the United States to draw upon, and they were fully used.

8. The Central Bank's Investment Fund for Economic Development (FIDE) is an unusually effective instrument for meeting a variety of development needs, especially in the private sector. The model and its techniques would be appropriate in any developing country. First, it can manage a much larger capital fund than can any external (or internal) donor. AID, together with FIDE, can multiply its capital inputs into the country without adding a single staff member or typewriter. Were it to try to retail such increased funds, it would be swamped.

With FIDE, AID and others can increase their capital inputs into the financieras and other financial institutions that are focused on private sector development. FIDE also is becoming more integrated into the programs of the training and technical assistance institutions. While FIDE intends to create its own advisory service, with increased financial resources, it will have to place heavy new requirements on all the institutions described in Section IV of the report to help it put training before lending.

9. Although putting training before lending and buttressing the latter with technical assistance have proved very successful thus far, making money for all concerned, there may be danger ahead as programs expand, particularly as programs move down to meet the needs of lesser capitalized, trained, and experienced potential entrepreneurs. The Dominican Development Foundation (DDF) and Financiera Dominicana have found that making the members of the lowest income groups creditworthy is expensive. So far costs have not exceeded returns, but volume has been low.

It seems prudent at this stage to have available a caution flag and a modus operandi, should danger signs appear. About three-fourths of the total market for small industry loans remains untouched. One solution, should it become necessary, might be public sector sharing (subsidizing) of the costs of lending that requires expensive servicing.



GLOSSARY OF ACRONYMS

ALIDE	- Asociacion Latinoamericana de Instituciones Financieras de Desarrollo
APEC	- Action Pro-Education and Culture (Accion Pro-Educacion y Cultura)
BID	- Inter-American Development Bank
BNV	- National Housing Bank (Banco Nacional de la Vivienda)
CEDE	- Training Center for Development (Centro de Entrenamiento para el Desarrollo)
CEDOM	- Centro de Documentacion
CENDA	- Northern Center for Agricultural Development (Centro Norte de Desarrollo Agropecuario)
CEPESA	- Center for Small Enterprise Assistance
CETEC	- Centro de Estudios Tecnicos
CFI	- Industrial Promotion Corporation (Corporacion de Fomento Industrial)
CIMPA	- Center for Animal Research and Production Improvement (Centro de Investigacion y Mejoramiento de la Produccion Animal)
CLADES	- Centro Lationamericano de Documentacion Economica y Social
DDF	- Dominican Development Foundation
DWH	- Deutsche Welthungerhilfe
ECF	- Educational Credit Foundation
FAO	- Food and Agriculture Organization of the United Nations
FCE	- Foundation for Educational Credit
FIDE	- Investment Fund for Economic Development (Fondo de Inversiones para el Desarrollo Economico)
FINAGRO	- Financiera Agroindustrial

GDP	- Gross Domestic Product
GNP	- Gross National Product
IDB	- International Development Bank
IDEI	- Dominican Institute for Integrated Education (Instituto Dominicano de Educacion Integral)
IES	- Institute of Higher Studies (Instituto de Estudios Superiores)
IESA	- Instituto de Estudios Superiores de Administracion
IICA	- Inter-American Institute for Cooperation in Agriculture
ILO	- International Labor Organization
IMF	- International Monetary Fund
INCAE	- Instituto Centroamericano de Administracion de Empresas
INDOTEC	- Dominican Institute of Technology (Instituto Dominicano de Tecnologia Industrial)
INFOTEP	- National Technical and Professional Training Center (Instituto para la Formacion Tecnica y Profesional)
INTAL	- Instituto para la Integracion de America Latina
INTEC	- National Technological Institute (Instituto Nacional de Tecnologia)
INVI	- National Housing Institute
ISA	- Superior Institute of Agriculture (Instituto Superior de Agricultura)
LASPAV	- Latin American Scholarship Program of American Universities
OAS	- Organization of American States
PROAPE	- Small Enterprise Assistance Program (Programa de Asistencia a la Pequena Empresa)
PROSEDOCA	- Procesadoras de Semillas Dominicanas
UASD	- Universidad Autonomo de Santo Domingo

- UCMM        - Catholic University Mother and Teacher (Universidad Catolica Madre y Maestra)
- UNDP        - United Nations Development Programme
- UNPHU       - La Universidad Nacional Pedro Henriquez Urena

## I. OVERVIEW AND BACKGROUND

The U.S. Agency for International Development (AID) has for many years supported a wide variety of projects and programs designed to reduce the constraints to free market, private enterprise development. It was expected that private enterprise, operating within a climate of rational economic policies, would engender internal economic development that would foster a more stable and even growth in income, employment, services, production, and institutional stability.

To accomplish these aims, AID has, with the host countries, implemented projects aimed at policy analysis and reform, development of intermediary financial institutions, management and skills training, small- and medium-scale enterprise development, investment promotion, provision of agricultural services, science and technology transfer, and investment-information sharing. AID's efforts have generally helped strengthen institutional capacity to carry out these functions and have led to distinctively positive results in some countries. The thesis of the study, then, is that an examination of some of the apparently successful of these efforts should provide useful information that could serve as a basis for assessing their potential replicability.

### A. The Study in the Dominican Republic

The Dominican Republic was chosen for inclusion in the study because its economic growth has in part been due to substantial inputs of credit coupled with training and because significantly unique specific institutions were created within that context and were judged to have contributed substantially to growth. While clearly a developing country, the Dominican Republic has considerable potential due to the diversity of its natural resources, its social and physical infrastructures, democratic institutions, strong entrepreneurial spirit, and receptivity to self-help programs. AID and other donors have been instrumental in the initiation and expansion of many activities that have contributed to the development of the private sector itself and to that sector's ability to influence the Dominican economy.

The United States Government has worked with the Dominican Republic since the days of the Office of Coordinator of Inter-American Affairs (Nelson Rockefeller). This cooperation was suspended for a period in the late 1950s but resumed with the advent of the Alliance for Progress. During the last 20 years, the variety of programs conducted by the USAID Mission in cooperation with so many local agencies has been so great that a

detailed examination of all of them during such a short study period proved impossible. The study team, in cooperation with the Mission and Dominican officials, thus selected for study the most representative programs. Hence, many worthy private sector development activities were not included except in summary and by reference.

Despite these limitations, the examples chosen, within the context of the scope of work, furnish valuable data for consideration both in themselves and in cross-country analyses. The quantity and quality of the programs and institutions examined provide substantial information of utility to future programming efforts of AID and other donor institutions, both in the Dominican Republic and perhaps more broadly.

B. The Climate for International Collaboration To Strengthen Private Sector Development

"Donor intervention," a phrase now in vogue and used in the study outline to describe the initiation of actions aimed at seeking development objectives, does not fully or accurately apply to the Dominican Republic. There, the process is more one in which the donor responds to host-country initiatives. This view of the process does not change the nature of the subsequent interaction in which both sides are freely and equally creative, with both the donor and the host playing aggressive roles in program design and content, but it does "put the right shoe on the right foot."

The history of AID-Dominican Republic relationships since economic cooperation was resumed in 1961 has been characterized by aggressive proposals for new ventures by the host country, matched by quick and warm responses on the part of AID. In no subject area has this been more true than in private sector development, where the stimulating give and take involved in building long-term programs with project building blocks has found AID staff often supplying as many of the creative new initiatives as the Dominicans.

In any event, it is clear that from 1961 to date, the interaction of AID (and later other donors) with a vigorous Dominican private sector profoundly affected the growth of the private sector, which in turn impacted positively on overall economic growth throughout the 1960s and 1970s. Another impressive test of the reality of private sector strength today as a force in the economy is the fact that the Dominican Republic, like other countries, is suffering from a world-wide recession, and most of the institutions of the ever-growing private enterprise sector are providing a cushion and sinews of strength that are helping the country to see its way through

the present difficulties. The institutions of the private sector and the framework that they have formed over 20 years, while strained, are holding together, are doing perhaps less business but doing it as usual, and are expecting to soon resume a satisfactory rate of growth.

Later in this report there is a review of the institutional framework for enterprise development as a holistic structure and how it relates to external donors. In a still later section, the key institutions within the structure are discussed in some detail. Before moving on to these matters, however, there are four aspects of the climate for cooperative private enterprise development that deserve special attention. Without an awareness of them, it would be difficult to understand how a private sector that was so small in 1961 could, with a new and nearly untried colleague, AID, have accomplished so much in so short a time. A discussion of these four factors follows.

1. The most crucial factor in the relative success of the Dominican Republic's private sector development effort is the conviction with which the institutions and persons involved feel and act upon their belief that capital lending on the one hand, and training and technical assistance on the other, must be integrated, both in principle and as to each specific project. No project should go forward, they believe, without simultaneous full consideration of and satisfactory determinations as to economic feasibility, technical resources, and human resources. Followup provisions and technical supervision must also be in place. To assure this, there must exist a strong and comprehensive network of institutions of credit, training, and technical assistance working together both in an integrated institutional frame and project by project.

The next section of this report describes the institutional framework that has grown out of these views. There are four categories of institutions by functions: lenders, trainers, technical assistance providers, and institutions for research. The typical lender normally secures training and technical assistance services from another member of the network. The system works so smoothly that this is often the preferred solution for many loan-financing institutions. Some lenders, however, have established their own training and technical assistance services, while also offering them to other lenders. Most agencies that "teach" also supply technical help, and both long-term training and short-term and on-the-job training as well. The latter are usually closely tied to an ongoing technical assistance activity related to a specific capital loan.

Most lenders now look upon the initial loan application simply as evidence of a "possible" need, not as prima facie

evidence of a capital requirement. The recognized sound and proper steps in determining whether or not to assist a project, after assistance has been requested, are as follows:

- Step 1: Feasibility analysis by either the lender or by a network technical-assistance provider hired by the lender
- Step 2: If step 1 is positive, project development with the help of competent experts employed by the lender to help the applicant complete a satisfactory plan and application
- Step 3: Inclusion in the plan of operations of such training (on-the-job and long-term) as may be needed to upgrade personnel competence to meet project goal standards
- Step 4: The making of the loan on terms and in the amounts indicated to be necessary by steps 1-3
- Step 5: Continuing technical assistance followup--a combination of surveillance and being on tap

The leaders in this approach to lending are the Compania Financiera Dominicana, the country's largest financiera, and the Dominican Development Foundation. Both have been strongly supported by AID. In fact, without AID's cooperation and financial assistance, these organizations, whose work began 20 years ago, would probably not have become what they are today. Their beginnings reflect the aggressive Dominican proposer-quick USAID response relationship. Their development has been closely followed and supported by USAID/Dominican Republic. Both the Compania Financiera Dominicana and the Dominican Development Foundation will be described in detail later in this report, but there is one key point about them that needs to be mentioned here: they have been the leaders in developing the concept of integrating technical assistance and training with capital lending.

These two institutions believe in this so fully that both now encompass all five of the necessary steps noted above within their own organizational capabilities, and they also make their training and technical facilities available to other lenders. Finally, they have learned a special lesson of significance well beyond enterprise promotion in the Dominican Republic: by following the five-step approach, it may well be found prior to reaching the step of making a loan that credit is not needed. Technical changes and training may be, and often are, all that is required, either for reversing a non-profitable situation or for expanding operations. The initial study of the firm's problems often reveals relatively simple

needed changes that can turn losses into profits without new capital inputs, as in the case of the psychiatrist who had to inform a prospective client that what he needed was "not a psychiatrist but a good lawyer." In fact it is sometimes found that new capital inputs could be counterproductive. For example, the owner of a bakery grossing \$12,000 a week had applied to Financiera Dominicana for a loan to expand because his costs were almost equal to income. Financiera technicians discovered numerous management problems that were consuming potential profits and made recommendations that would increase net profit by \$1,000 per week without new capital inputs. They also recommended against expansion at that time because of market conditions. The baker implemented these suggestions, increased his net income by \$1,000 per week, and said proudly: "Now I am a businessman, not a baker; I have my baker in the back."

2. Another important factor in the success of the private sector development effort is the affinity of Dominicans for international cooperation. This applies particularly to those from the United States with whom cultural and economic ties have always been close. Many youths who have studied abroad have done so in the United States. The Dominicans have always recognized their need for new technology inputs from outside and have aggressively pursued them, in contrast to some countries that are so reluctant to seek needed external inputs that they do not do so. In recent years, the Dominicans have also recruited expertise and information increasingly from Europe, without diminishing their cooperation with the United States. Thus, one of the common deterrents to external cooperation for development does not exist in the Dominican Republic to any appreciable degree.

3. Despite the size of the public sector, Dominicans are essentially oriented toward private enterprise development. The large size of their public sector is due primarily to an historical accident, the State's inheritance of the Trujillo family holdings. It continues to operate most of them today as public enterprises. The State Enterprises Corporation controls over 40 industrial firms, and the State Sugar Company produces two-thirds of the country's sugar. Direct Government purchases of goods and services equal 20 percent of gross domestic product (GDP). Despite all this, however, and despite the fact that not all State enterprises were inherited--some have been deliberately created since that time--the Dominican people remain strongly committed to private sector growth. A vigorous, vocal, and influential private enterprise element has arisen within the economy from very modest beginnings 20 years ago.

One may ask, then, why are there not stronger sentiments favoring the transfer of public enterprises to the private



sector? The answer is difficult and complex. In it, however, also lies the heart of the explanation of the predominating pro-private sector sentiment. This anomaly is explained by the fact that the Dominicans are not doctrinaire about the private versus public sector issue. It is not a political issue. Dominicans favor private over public enterprises, other things being equal, because it makes sense. It appeals to them as the best way for all--the more efficient, providing the greater opportunities for jobs and for entrepreneurship. There are strong and deep urges among Dominicans to own their own businesses.

By the same token, sentiment about State enterprises is calm, rational, and practical. Other things being equal, most would prefer that the enterprises be private. But, under the circumstances, other things are not equal. The administrative and managerial magnitudes, let alone the economic consequences of dismantling State machinery accounting for 20 percent of GDP and a high proportion of Government revenues, are as yet so great that Dominicans prefer to proceed slowly, making such moves the subject of long-term planning.

In summary, private versus public ownership is not a doctrinal issue, and when there are no specific, overriding reasons to the contrary, the Dominicans favor the promotion of an ever larger and more vigorous private sector.

4. The fourth special factor is the unique, in the evaluators' experience, spirit of civic fellowship among the Dominican people, including the men and women of business and industry. The record of the growth of the private sector in the past 20 years has been one not so much of "rugged individuals" achieving success (though these personal traits have certainly been important elements), as it has been one of determined groups of individuals working together to achieve success in industry and business. Loners do not typify the achievement record; associations, foundations, committees, and clubs do. At the heart of this phenomenon appear two causal factors. One is the sense of the practical already referred to, the recognition that several heads are better than one. The other is, or appears to be, an ingrained sense of the importance of fair and just treatment and of opportunity for all members of the community, for which each one holds himself, and his peers, responsible. This is not a matter of philanthropy, of a few of the strong wanting to help the weak. It seems to be, more, an innate sense of the need to share opportunity, of giving as many people as possible the breaks they need to the extent of their abilities, resources, and capacity to use resources. This is clearly a matter of enlightened self-interest on the part of the economy's leadership, and is a firmly held conviction.

In summary, the four key factors that appear to have most significantly affected the Dominican climate for private investment and influenced its direction are the following:

1. A conviction that money alone is not enough to assure a successful private enterprise experience, that management and skills training, a technological approach to project design, and technical assistance have to be melded with capital for ventures to succeed
2. An openness to external cooperation
3. A bias in favor of private versus public enterprises where such a choice is pertinent and practical
4. A pervading sense of cooperation within the business and industrial sectors extending to the inclusion and encouragement of the smallest entrepreneurs, potential as well as actual

It has been in the context of this setting and climate, then, that the institutional framework and component parts to be discussed later came about.

Before proceeding directly to this analysis, however, let us review the basic factors of geography and the socioeconomic and political climates that provide the context within which the Dominican private sector operates. An understanding of these facts of life, which are not changeable by development projects alone, is essential to an appreciation of what has been accomplished thus far in the private sector and the limitations beyond the sector's control within which it must work.

### C. Geography and Demography

The Dominican Republic occupies the eastern two-thirds of the island of Hispaniola, the second largest of the Greater Antilles group. It shares a 224-mile border with Haiti on the west, and Puerto Rico lies roughly 71 miles to the east. The nation contains 18,712 square miles, about the size of Vermont and New Hampshire combined. Much of the terrain is rugged, with four mountain ranges crossing the country. The largest and most fertile valley, the Cibao, is in the upper central part of the Republic. Other smaller valleys, however, also contribute substantially to agricultural production. The climate is tropical and varies little throughout the year except for differences in rainfall, generally concentrated in the May-November period. The island is within the hurricane area. Tropical storms have several times caused a great deal of damage. Two in 1979 were especially devastating and

detrimental to the growth of the economy in long-range as well as short- and medium-range terms.<sup>1</sup>

The 1981 population was estimated at 5.4 million, or more than 260 persons per square mile. The annual growth rate has been more than 3 percent, but a portion of this is due to heavy immigration from Haiti, much of it undocumented, that is greater than the emigration from the Dominican Republic, most of which is to the United States. The 1980 birth rate was 2.3 percent. The population is generally composed of descendants of both early European settlers (Spanish and French) and African slaves. The composition is estimated at 15 percent Caucasian, 15 percent Negro, and 70 percent mixtures of the two. Literacy is approaching 70 percent, a huge increase over the past two decades. General mortality was calculated at 31.0 per 1,000 and infant mortality at 55.4 per 1,000 in 1979.

Santo Domingo, the nation's capital, is estimated to contain about 20 percent of the population, or well over one million people. The second largest city is Santiago de los Caballeros, with about 300,000 inhabitants. A high proportion of the population, about 51 percent, lives in rural areas and towns of under 5,000 inhabitants.

Overall employment is over 77 percent, but only 60 percent in the rural areas. In 1980, nearly 62 percent of the employed work force was in private agriculture, and another 5 percent was employed on Government farms. Slightly less than 22 percent was employed by the Government (including those working on State farms). About 9 percent worked in commerce, another 5 percent in manufacturing. Unemployment is estimated at 24 percent.

#### D. Socioeconomic Background

The history of the Dominican Republic is often cited in partial explanation of its distinctive social, economic, and political configurations. The island was discovered by Columbus in 1492, and the first permanent settlement was established in the present capital area the following year. Santo Domingo served as Spain's colonial center for the Americas for several years, and its population grew rapidly as government, commerce, religion, and conquest spread to Mexico and Central and South America. The Indians were used as slaves for

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<sup>1</sup>U.S. Department of State, "Dominican Republic Post Report," Washington, D.C., March 1979.

agricultural development. The discovery of gold, silver, and other valuables in Mexico and later in Peru diminished Santo Domingo's importance as a colony, and the population level dropped. Although African slaves were introduced to replace the declining Indian population, agriculture began to deteriorate rapidly in 1503; indeed, the economy as a whole was stagnant for more than a century.

Competition among Spain, France, and England for domination in the Americas was fierce in the 17th century. Sir Francis Drake captured Santo Domingo and held it for ransom. French buccaneers established settlements in present-day Haiti, and that portion of the island was ceded to France in 1697. Trade restrictions were greatly liberalized in the following years, and the population of both the French and Spanish holdings on the island increased greatly. Agriculture grew prominently during that period. The revolution in France and the subsequent freeing of slaves were repeated in Haiti. When Santo Domingo was ceded to the French in 1795, it was occupied by the Haitian French forces. The abolition of slavery caused many landowners to move to other Spanish holdings, particularly Puerto Rico and Venezuela. Negro and mulatto forces rebelled against France in 1804 and formed the independent nation of Haiti. France continued in power in what is now the Dominican Republic until 1809 when the colonists, aided by the British, returned the area to Spain. The colonists rebelled against Spain in 1821, but their independence was shortlived; Haiti captured the territory in 1822. Independence was finally achieved in 1844 when the Haitian forces were defeated.

Persistent Haitian invasions and struggles for power within the Dominican groups caused great damage to the economy. Briefly, during the period 1861-1865, Spanish forces were invited back in an effort to unify the country. Economic progress was sporadic and often reversed during the next three decades. Heurieux, who held power for 17 years, incurred heavy foreign debts, mostly to New York financiers. A series of attempts to solve the problem through guaranties, sale of a part of the land to the United States, or making the country an outright dependency of the United States were rejected. Finally, an agreement providing for a U.S. customs receivership was reached. Civil disorders were frequent and violent, and in 1914, the United States intervened and then occupied the Republic during 1916-1924.

The succeeding Government continued in power through several maneuvers until Trujillo was elected in 1930, following the overthrow of the previous president. He continued to dominate Dominican politics and economics until his assassination in 1961. On Trujillo's death, a military junta first took over, but a civilian Government, under Juan Bosch, was elected about a year later. Severe civil disturbances occurred in 1965

but were quelled with the help of the U.S. forces. Juan Balaquer was subsequently elected president and the rapid growth of the Dominican economy began. In 1978, elections were won by the opposition party, but the Government was smoothly handed over to the new president, Antonio Guzman. Six weeks before the end of his term, he died from what was ruled as an accident in handling a gun, and the vice president, Jacobo Majluta, became president. The presidential candidate elected in May, Jorge Blanco, was inaugurated in mid-August 1982.

The economy of the Dominican Republic changed slowly after independence, first in 1809 and again in 1844. Sugar, its by-products, and some other agricultural products remained preeminent. Commerce grew sporadically, suffering several important setbacks. The nation experienced severe financial reverses in the early part of the 20th century with heavy foreign debts, terminating in customs receivership by the United States. The world-wide depression of the 1930s was strongly felt in the Dominican Republic, but World War II, with the increased demands for sugar and other food products, spurred a recovery.

The most substantial changes in Dominican economic history began in 1961. The Trujillo family properties were nationalized<sup>2</sup> and that was accompanied by a strong promotion of private business and industry. Import-substitution industries predominated in the early years. Except for serious setbacks during the 1965 civil disturbances, the Dominican economy showed a steady rise for nearly two decades (see Table 1). Stimulated by relatively easy access to foreign and domestic credit, investment incentives, and protective tariffs, the GDP grew at more than 11 percent annually from 1968 to 1974.

The growth, however, was not balanced across all sectors. Agricultural production grew at about 2.5 percent a year, which was insufficient to meet the rapid population increases and at the same time maintain the level of exports. A part of the situation was intentional, because the Government was seeking low consumer prices.

After 1974, economic growth slowed substantially to just under 5.5 percent annually. Increasing use of high priced oil, generally depressed prices for agricultural exports (sugar, coffee, tobacco, cacao), and the difficulties of starting any

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<sup>2</sup>That historical event does not appear to be an indication of a trend. No other farm land has been expropriated. The Government later obtained a 50 percent interest in the oil refinery and a 20 percent share in the Rosano mines. However, neither of these is operated by the State.

new import-substitution industries were the major causes. The value of imported petroleum products doubled during the late 1970s and early 1980s.

Table 1. Historical Perspective of Gross Domestic Product (GDP), Gross National Product (GNP), and National Income, 1962-1980  
(in RD\$ millions)

Year	GDP	GNP	GNP Per Capita	National Income
1962	887.2	865.9	270	703.1
1963	1,012.7	992.8		812.9
1964	1,104.2	1,085.4		886.7
1965	956.8	944.8		802.9
1966	1,059.5	1,041.1		860.7
1967	1,114.6	1,094.9		908.2
1968	1,162.2	1,143.2		935.7
1969	1,325.4	1,402.0		1,071.5
1970	1,485.5	1,459.5	312	1,210.0
1971	1,666.3	1,637.5		1,356.0
1972	1,987.4	1,940.5		1,616.2
1973	2,344.8	2,268.0		1,898.7
1974	2,899.2	2,809.3		2,237.9
1975	3,609.5	3,516.8		2,867.8
1976	3,951.5	NA		NA
1977	4,538.8	NA		NA
1978	4,698.5	NA		NA
1979	5,496.3	NA	990	NA
1980	7,015.8	NA		NA

NA = Not available.

Sources: 1962-1975 from World Bank, "Economic Memorandum on the Dominican Republic," May 15, 1981; 1976-1980 from USAID/Dominican Republic, Statistical Fact Book, Dominican Republic, 1977.

Higher cost imports and lower priced exports dampened the Government's efforts to provide public services. Government expenditures were nearly 20 percent of GDP in 1976 but fell to about 17 percent in 1980 despite continuing needs for improvement. Infrastructure has also suffered a great deal; new and improved road mileage has declined, maintenance and modernization of the State sugar refineries and processing plants are not adequate, and the national electric company facilities are

in disrepair. Table 2 indicates the trends in public and private sector investment from 1975 to 1980.

Two disastrous hurricanes in 1979 caused huge damage to both public and private sector installations. During the emergency period and the year after, large portions of potential investment were subverted to repairs and relief. Export returns (see Table 3) fell sharply in 1980, and thus a share of the public resources that might have been used to promote investment was unavailable (see Table 2).

### 1. Agriculture

The mainstay of the Dominican economy, both for internal uses and exports, is the agricultural sector; it employed 61.7 percent of the private occupied labor force in 1980, provided 80 percent of the domestic consumption, and furnished 74 percent of the exports. Large Government-owned and -operated farms make the Government a preeminent partner with the private sector in Dominican agriculture.

Government revenues depend heavily on agriculture and its exports. With the current weak world prices for sugar, coffee, cocoa, and tobacco, those revenues have dipped sharply while imported inputs have climbed in cost. Net revenue figures were not available but an examination of the export values in Table 3 gives an indication of the magnitude of the problem.

Not all of the slow value growth was due to depressed prices. Production of some export crops also fell (see Table 4). Other related causes were insufficient investment in repair and replacement, continuing soil erosion, weak irrigation water management, and price controls on some products. The approximately stable production figures shown in Table 4, when considered in the light of high population increases, amounted to a per capita decrease, and foods were imported at higher and higher levels.

Production estimates for 1981 and 1982 are pessimistic. The previously described agriculture problems have continued; additionally, the low Government investment since 1978 will be felt for several years (see Table 5). Fortunately, private investment in agriculture has increased, thus partially alleviating the effects on the national food supply, exports, and the general economy.

Table 2. Trends in Public and Private Sector Investment,  
1975-1980  
(in RD\$ millions)<sup>1</sup>

Sector	1975	1976	1977	1978	1979	1980
Private	539.7	588.4	656.3	833.4	1,142.9	1,374.6
Public	342.5	293.3	343.2	296.8	252.1	335.4
Total	882.2	881.7	990.5	1,130.2	1,394.2	1,710.0

<sup>1</sup>Official rate: RD\$1=U.S.\$1; parallel rate RD\$1.45=U.S.\$1.

Table 3. Exports of Dominican Agricultural and  
Agribusiness Products, 1977-1981  
(in RD\$ millions, f.o.b. value)

Product	1977	1978	1979	1980	1981
Sugar and Products	231.5	180.9	206.1	307.0	537.6
Coffee	185.6	98.0	158.3	78.6	75.5
Cocoa and Products	95.9	86.9	77.3	56.0	50.1
Tobacco and Products	29.3	46.3	53.9	34.1	67.4
Meats, all	1.7	2.4	3.5	2.9	8.4
Vegetables and Rootcrops	10.8	10.5	8.8	11.9	14.2
Fruits and Products	5.6	5.7	4.6	7.2	10.9
Others	13.0	18.0	17.0	17.0	12.0
Total Agricultural Exports	573.4	448.7	529.5	514.7	776.1
Total National Exports	782.1	676.4	876.8	963.3	1,198.9

Source: Comercio Exterior, Estadística Dominicana, 1977-1981.



Table 4. Dominican Agricultural Production Equated  
to 1970 Prices, 1977-1980  
(in RD\$ millions)

Product	1977	1978	1979	1980
Cereals	54.4	53.7	49.2	63.2
Export Crops	146.5	143.0	148.1	144.6
Oil Seeds	8.1	9.7	10.4	7.1
Textiles	0.8	1.0	0.8	1.0
Pigeon Peas	14.5	14.5	16.4	18.3
Rootcrops	30.5	30.1	26.0	24.1
Fruits	31.5	31.7	32.1	30.8
Vegetables	27.0	29.1	27.8	24.9
Others	7.4	7.5	7.7	8.0
Total	320.7	320.3	328.5	322.0

Source: Banco Central.

Table 5. Investment in Dominican Agriculture  
at 1970 Prices, 1976-1980  
(in RD\$ millions)

Sector	1976	1977	1978	1979	1980
Public	161.7	174.3	139.8	112.1	134.5
Private	410.8	444.6	495.8	568.2	653.4
Total	572.7	618.9	635.6	680.3	787.9

Sources: Banco Central, Comercio Exterior.

## 2. Tourism and Mining

One of the very active growth sectors of the economy is tourism. Stimulated by adverse conditions in some other Caribbean areas and by strong incentives from the Dominican Government, the 1975 gross receipts of U.S.\$79 million rose to U.S.\$167.9 million in 1980. The new level placed tourism third

in the general economic picture and made it a powerful contributor to foreign exchange.

Mining, too, has been an important enterprise in providing foreign exchange. Production has continued at about the same tonnage, but the value of its return, due to weakened world markets, fell from 40 percent of total exports in 1980 to 28 percent in 1981. Gold, silver, ferronickel, bauxite, gypsum, and limestone all suffered some decline. The prospect of lignite production brightens the future picture, especially as a substitute for some of the petroleum consumption. Further development of hydroelectric facilities will also decrease the dependence on foreign oil.

### 3. Industry

Industrial development has continued to progress in recent years, albeit more slowly than before. The initiation of new industries, after the rapid expansion in import substitution, became difficult. The high prices of petroleum products and other raw materials were a major impediment, and foreign exchange was less plentiful. Elevated interest rates also had a depressing effect. An 18 percent profit remission restriction on investment from outside the nation has been a cause for concern by some foreign firms.

Manufacturing and processing industries increased their output through the 1976-1979 period (1980 and 1981 values were not yet available at the time of this report) despite reverses in the industrialization of sugar and its by-products (see Table 6). Non-sugar output gained about 24 percent across the four-year period. Although the amount represented less than the inflation rate, the position of that group of products was considerably more favorable than the sugar group, which fell 15 percent in the period.

The non-sugar group chiefly represented import substitutions: processed tobacco and cigars, processed food products, footwear and leather goods, clothing and textiles, refined petroleum, electronic equipment, machinery, and construction materials. A portion of some of these are exported, providing small but important additions to foreign exchange.

### 4. Finance

The financial institutions in the nation comprise Government and commercial banks, savings and loan associations, housing and construction financing institutions, and a category of

intermediary institution called financieras.<sup>3</sup> Of the 11 private commercial banks, 4 are U.S. owned, 1 Spanish, and 2 Canadian. Some of the financieras are owned by banks, others are controlled by the boards of associations who name the directors, and some are governed by their own self-perpetuating boards. One financiera is a primary shareholder in a commercial bank. The assets of the institutions, when grouped by descriptive category, have risen steadily, and at a rate greater than inflation during the last five years (see Table 7). The commercial banks' share of those assets, about 75 percent, has not varied appreciably during the 1978-1981 period.

Table 6. Output of Dominican Manufacture, 1977-1980  
(in RD\$ millions)

Product Group	1977	1978	1979	1980
Sugar	664.9	600.3	564.9	566.6
Non-sugar	1,285.2	1,467.9	1,496.6	1,587.8
Total	1,960.1	2,068.2	2,061.5	2,154.4

Source: Estadística Industrial.

Government financial institutions have also shown an annual increase in assets, although the percentage rise was less in some years than that for the commercial institutions. The rise and fall of exports, revenues, and loans tendered from several sources contributed to the variations.

A more detailed view of the changes by year in the utilization by the different sectors is shown in Table 8. The rather large fluctuation seen in some of the growth rates was sometimes due to supply and demand factors, but Government policies and other interventions were also involved. Outside

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<sup>3</sup>The word "financiera" is sometimes translated as development bank, but its functions are often quite different from those commonly included in that category. This report will use the term "financiera." For a description of this major topic, see the later case studies.

conditions--prices and availability of exterior credit--were also important.

Table 7. Total Assets of Banking and Other Financial Institutions, 1976-1981  
(in RD\$ millions)

Type of Institution	1976	1977	1978	1979	1980	1981
Commercial Banks	1,311.5	1,467.4	1,555.4	1,767.5	2,000.4	2,439.2
Savings & Loans Associations	134.3	167.1	203.1	250.5	321.7	361.6
Mortgage Banks	20.7	37.8	72.3	124.3	175.3	241.3
<u>Financieras</u>	70.9	91.5	117.2	146.2	178.1	198.3
Total	1,537.4	1,763.8	1,948.0	2,288.5	2,675.5	3,251.5
Government Financial Institutions	265.2	291.4	315.9	327.1	405.0	505.1

Source: Superintendencia de Bancos.

Government revenues depend heavily on indirect taxes on foreign trade and on excises. Thus, when public expenditures rose from about 14 percent of GDP in 1976-1978 to nearly 18 percent in 1979, the fiscal deficit increased from 0.1 percent of GDP in 1977 to 5.5 percent in 1979. The trend was reversed in 1980 by a combination of fiscal restraints and higher exports and their prices. However, 1981 appears to have seen another decline, and unless world prices, especially of sugar, increase, the same will be true for 1982.<sup>4</sup>

The rate of inflation (as measured by the national consumer price index, with 1976-1977 = 100) increased sharply to 18 percent in 1980 from 9.1 percent in 1979, 3.5 percent in 1978, and 12.9 percent in 1977. This increase was attributable largely to the measures taken by the Government to bring the prices of gasoline, electricity, and some agricultural goods in

<sup>4</sup>World Bank, "Dominican Republic, Its Main Economic Development Problems," Washington, D.C., Latin America and the Caribbean Regional Office, 1978.

Table 8. Dominican Monetary Indicators, 1977-1981  
(in \$RD millions and percentages)

Monetary Indicators	1977	1978	1979	1980	1981
Commercial Bank Credits to Public Sector	112.1	161.8	201.2	235.7	402.4
Growth Rate		44.3	24.4	17.1	70.7
Commercial Bank Credits to Private Sector	814.7	849.6	944.9	1,114.4	1,104.9
Growth Rate		4.2	11.2	17.6	0.2
Total Commercial Bank Credits	926.8	1,011.4	1,146.1	1,347.1	1,507.3
Growth Rate		9.2	13.3	17.5	11.2
Money Supply I	414.7	438.3	573.4	563.3	636.9
Growth Rate		5.7	22.6	4.8	13.1
Money Supply I + Official Deposits	559.9	604.5	701.0	716.8	746.1
Growth Rate		7.9	15.9	2.3	4.1
Commercial Bank Credits to Private Sector (percentage change)					
To Production Sector		6.0	7.3	20.4	1.4
To Commercial Sector		13.0	6.1	7.4	3.5
To Various Sectors		18.9	40.6	23.5	6.4
GDP Constant	2,564.6	2,620.0	2,746.1	2,899.1	3,001.4
Growth Rate		2.2	4.8	5.6	3.5
Total Bank Credits as % of GDP	36.1	38.6	41.7	46.5	50.2
Bank Credits to Private Sector as % of GDP	31.8	32.4	34.4	38.3	36.6

Source: USAID/Dominican Republic.

line with the cost of importing the inputs for producing them. Since some imports of machinery, equipment, and spare parts were shifted to the parallel exchange rate,<sup>5</sup> the policy contributed to price rises.

In 1980, the trade deficit grew to 464 million pesos, accompanied by a 44 percent rise in the services deficit. The current account deficit averaged \$158.4 million during 1974-1975, \$293.9 million during 1976-1978, \$315.4 million in 1979, and \$705.3 million in 1980. The country lost \$116.8 million in reserves in 1980.<sup>6</sup>

In earlier years, much of the imbalance was due to Government undertakings; in 1980, however, most of the losses in reserves were sustained by commercial banks. In fact, of the \$585.5 million capital inflow in 1980, 66.4 percent was short-term credit. The combination of a serious deterioration in the terms of trade caused by escalating oil prices, high and rising prices of imported equipment and spare parts, and the adverse interest rate differential suggests a serious adjustment process in the balance of payments for 1981 and beyond.

Considerable pressure was exerted by the press on the Guzman and Majluta governments to reduce the unfavorable trade balance and the Government deficit.<sup>7</sup> Several pieces of legislation were pending in the Congress to effect a more stringent fiscal policy. The Blanco Government will no doubt be faced with the same exigencies. Suggested remedies are to increase import-substitution industries, to enact other import reduction measures, and to restrict investment in Government services.

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<sup>5</sup>RD\$1=U.S.\$1 in many of the transactions; a "parallel" market, in which buyers must compete openly with others seeking foreign currency, was at about RD\$1.45=U.S.\$1 in July 1982.

<sup>6</sup>The sources for these data are the International Monetary Fund, "Consultation Report on the Dominican Republic," Washington, D.C., July 13, 1981; and International Monetary Fund, "Dominican Republic--Recent Economic Developments," Washington, D.C., June 30, 1981.

<sup>7</sup>"CHNE Advierte Sobre la Devaluacion el FMI Exige Eliminar Deficits Estatales y Subir Tasas de Interes," El Nuevo Diario:4, 17 de julio de 1982; "La Asistencia del Fondo," Listin Diario XCIII (23266):4, 14 de julio de 1982; Perez, Maximo Manuel, "Majluta da Apoyo Recurrir al FMI," Listin Diario XCIII(23266):1, 11, 15 de julio de 1982.

### E. Development Policy Review

The Government of the Dominican Republic has espoused the doctrine of equitable development in all sectors of the economy, geographically, and among its many institutions. The labors of the House of Deputies, the Senate, the Presidents and their cabinet secretaries, and the public bureaucracies have been unable to achieve that goal. Differences of opinion, emergencies, widely varying export prices, and restricted revenues have detracted from the Republic's capacity to implement equitable development.

Previous sections have described events that have influenced public policy. In summary, these have included a pre-1962 history of frequently chaotic economic and political conditions and severe restrictions on equitable growth. Considerable damage was occasioned by the civil disturbances of 1965 and by the two hurricanes in 1979. The conversion of the Trujillo properties into State-owned and -operated enterprises, thus providing a substantial portion of the Government's revenues, has had, at times, a significant effect on economic policy formulation. Similarly, high net population increases and the rural-to-urban movement have kept the demand for services very intensive, and Government expenditures have risen steadily over the last two decades.

As noted earlier, the public policy of encouraging local processing and manufacturing induced rapid rises in these sectors until the most economically feasible industrialization was reached. Growth since then has been slow, but the stated policy still favors import substitutions through a tax exemption period, low import duties on some inputs, easy and relatively low-cost access to credit, and some protection from competition.

Policy also facilitates some development of export production, mostly through the same mechanisms as described for import substitution. Special regulations, however, have favored technology-intensive rather than labor-intensive enterprises. While this was apparently not intentional, the result has alleviated few of the unemployment problems.

One general economic policy that appears to have affected nearly all sectors, but especially agro-industry, is the maintenance of low consumer prices. Direct price controls, administrative regulations, and exchange and interest differentials have been used. In some cases profit margins were severely reduced and scarcities developed. Food products have been particularly affected.

A very complex set of controls over investment and operating capital has been imposed. Foreign capital is subject to varying exchange rules, restrictions on the amount of profits that can be repatriated, currency exchange rules, and reserves that must be maintained. In general, the policy toward foreign investment is ambivalent. Dominican investors also face many of these same problems. One of the most difficult problems for some investments is the variation in the interest rates, which are set according to the nature of the enterprise--whether for import/export or local destination--and in the time period for utilization or repayment. Hesitancy about investment has resulted; additionally, some capital flight has been associated with interest rate restrictions, the amount of profits that can be repatriated, and the tax structure.

The most frequent complaints from the economic sector are those related to the Government paper work involved and the amount of time needed to secure approvals of transactions. Several agencies may have jurisdiction over the same facet of an operation. Further, a considerable amount of administrative judgment is determined by each agency rather than by hard and fast rules. As would be expected, these decisions are not always in agreement with each other, causing businesses to have to renegotiate, to search for other ways to complete the transaction, and to lose a great deal of time in processing applications.

Despite these several problems, domestic and foreign investments have increased relatively steadily during the last two decades, including substantial funding for tourism facilities and general construction. The legislative reforms now before Congress should streamline the processes and generally encourage business expansion. High interest rates abroad, however, remain a restricting factor beyond national control. The contradiction of imposed low rates in the Dominican Republic, which could be controlled, with the increased costs of obtaining capital outside, is also a deterrent to development.

Similarly, growing federal deficits and the declining value of the Dominican peso in the world money markets are considered to be dangers for the future. The press contains almost daily exhortations on the need to trim Government and semi-autonomous institution budgets, restrain nonvital imports, and improve the profitability of State enterprises.<sup>8</sup> Reviews,

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<sup>8</sup>"Comentando a Vicini," Editorial, Listin Diario:6. 28 de junio de 1982; Romero, Jose, "Ve Obstaculos Incentivo Exportaciones," Editorial, Listin Diario:5-B, 6 de julio de 1982; Silvestre, Manuel, "Considera Prioritario Eliminacion de Deficits," Listin Diario:1, 12, 4 de julio de 1982; Silvestre, Manuel, "Juzga Escaso Pstimulo Eequena empresa RD," Listin Diario XCIII(23279):7-A, 18 de julio de 1982.



with an eye to reforming fiscal policies, are being negotiated with the International Monetary Fund. Business leaders have strong hopes that through these negotiations improvements can be achieved.

Finally, sustained long-term economic growth is linked to the accomplishment of needed improvements in several key problem areas of vital concern. These include the deteriorating condition of electric current generation and transmission, the scarcity of well-trained vocational and professional personnel in many fields, inadequate data gathering and processing for public and private planning, and above all, the revitalization of agriculture.

## II. THE INSTITUTIONAL FRAMEWORK FOR STRENGTHENING PRIVATE SECTOR DEVELOPMENT

This section has three parts: (1) an examination of Dominican institutions, (2) a discussion of external donors other than AID, and (3) an analysis of AID's role as donor.

### A. Dominican Institutions

There are three principal groups of interrelated Dominican institutions that are primary contributors to the growth of private enterprise in the Dominican Republic; together they make it possible for a complex system of private sector growth and development to work. If any one of these three kinds of institutions did not exist, the system as it is known could not function; if the three groups did not cooperate and interact as they do, the system would be crippled.

These three groups of institutions are the following:

1. Group A: Institutions providing capital resources for private sector development projects
2. Group B: Institutions providing training and technical assistance resources for such projects
3. Group C: Broad associations of private sector leaders and leadership groups that promote the creation of Group A and B institutions but do not engage in operational activities themselves

These institutions exist in both the private and public sectors, and the cooperation is often strong between the two sectors.

The capital resources institutions, Group A, include 17 private financieras, 1 major private foundation, 12 commercial banks, 8 mortgage banks, 16 savings and loan associations, and 5 public banks that provide capital to or serve as conduits for external capital for the financing of private agricultural, industrial, and commercial enterprises, normally via local private intermediary financial institutions. These banks are the Central Bank, the Agricultural Bank, the National Housing Bank, the Industrial Development Corporation, and the Workers Bank.

The institutions for training and technical assistance, Group B, include the Foundation for Educational Credit; the Institute of Higher Studies (IES), a technical university; the Dominican Institute for Integrated Education (IDEI), a non-formal technical training program; the National Technological Institute (INTEC), a technical university; the Dominican Institute of Technology (INDOTEC), a research center; the National Technical and Professional Training Center (INFOTEP); the Small Enterprise Assistance Program (PROAPE); and the Superior Agricultural Institute (ISA), an agricultural high school and university affiliated at the higher level with the Catholic University Mother and Teacher (UCMM), which is itself in numerous important ways a training and technical assistance resource for private sector development.

In addition, there are two training and technical assistance agencies of central importance. They are unique and significant because each is owned and operated by one of the country's most important financieras as a service to its borrowers and as insurance that their loans will be repaid. As has already been indicated, the Dominican private sector is imbued with the concept that lending, training, and technical help are interdependent. There are two lending institutions that have felt so strongly about this that they have created their own training and technical assistance centers: the Dominican Development Foundation has its own Training Center for Development (CEDE) to serve both its own clients and others. More recently (1982), the country's largest financiera, Compania Financiera Dominicana, established its own Center for Small Enterprise Assistance (CEPESA) to serve the same ends, though with more emphasis from the start on serving other development banks and agencies as well as their own programs. In addition, there is in the country's second largest city, Santiago, an entity, PROAPE, created in 1981 by the Santiago Association for Development. This group of prodevelopment businessmen saw so many potentially worthy enterprises in need of capital which they could not obtain for lack of technical capacity that they created PROAPE. PROAPE functions, as do CEPESA and CEDE, to provide the training and technical assistance links in the chain that make possible the securing and profitable use of capital.

One final type of training and technical assistance institution needs to be noted to complete the picture: the national universities. The Catholic University has already been mentioned. It has for many years been a model of economic development as well as a general academic institution. The national universities, Universidad Autonomo de Santo Domingo (UASD), La Universidad Nacional Pedro Henriquez Urena (UNPHU), and Universidad del Este perform all of the normal functions of full-fledged institutions of higher learning, many of whose programs are relied upon by industry and commerce for their trained technical personnel. Use of these universities by the private sector is facilitated by the program that the private sector strongly supports: the Educational Credit Foundation.

Group C, whose role has been to create, nurture, spin off, and support operating entities, includes the Association for Development of the Region of Santiago; the National Association of Men of Industry and Business, essentially Santo Domingo oriented; Accion Pro-Educacion y Cultura (APEC); and the newer regional associations recently created to carry out programs like that of the Santiago group. In addition, the Dominican Development Foundation must be included in this category even though its principal activity has tended to be to provide capital, training, and technical assistance for private sector projects. It is the national development foundation, and retains a broad charter to foster development across a wide front. Like the other broadly based Dominican associations, it may be expected to spin off new development programs from time to time.

More detailed descriptions of the most important Group C institutions follow immediately below. Case studies of selected institutions in Groups A and B are contained in Section III.

1. National Council of Businessmen (Consejo Nacional de Hombres de Empresas)

Many organizations have arisen in the last 20 years to forward the interests of the business and industrial communities. A few are specific to the type of enterprise (such as the bankers group), but most include a wide spectrum of the private sector, similar to chambers of commerce. An unusual form has also developed in the Dominican Republic, associations dedicated to the development of public and private institutions in business, industry, and agriculture.

Some of the groupings have had considerable success in providing information to the Government and in securing cooperation to further development. Others have had only limited success. Additionally, the interests of individual groups have

sometimes been in conflict. In an attempt to improve and coordinate the presentations of information and to incorporate the needs of all economic sectors, a National Council of Businessmen was recently formed, and many of the separate organizations have representation in this centralized effort.

The National Council of Businessmen, very modest in its beginnings, is now growing rapidly in the functions it had planned to perform. Data collection, analysis, and interpretation constitute a major effort. A legal department examines all facets of present and proposed legislation to determine probable future effects. One of the main concerns is the internal and external effects that laws, regulations, and general policy can have on development. The Council has worked on the problems of deficits in Government, inflationary factors, and the balance of trade. In a recent communique, the Council urged negotiation with the International Monetary Fund in an effort to stabilize the economic situation.<sup>9</sup> It is expected that the National Council of Businessmen will grow in importance as its capacity for analysis increases.

## 2. Association for Development (Asociacion para el Desarrollo)

In July 1961, a group of business and professional people in Santiago de los Caballeros founded the Association for Development, the first in the nation and one of the earliest ones anywhere. Its stated purpose was "to promote and develop private initiative, collaborate with official action, and obtain international cooperation of benefit to the economic and social development of the country."<sup>10</sup> With only its ideas, enthusiasm, effort, and personal monetary contributions, the group gained the credibility, respect, and support of the community, the Government, AID, other external donors, foundations, and financial and academic institutions. This in turn made it possible for the association to obtain resources and channel them into a wide variety of projects and to stimulate and support many others.

The present membership is 33 (deceased President Guzman was the 34th member), with an elected governing board and committees assigned specific functions. Operating costs are met through fixed quotas, annual dues, and special contributions by members. The Association also administers funds provided by

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<sup>9</sup>El Nuevo Diario, 17 de julio de 1982.

<sup>10</sup>Asociacion para el Desarrollo, (Prospectus), Santiago, 1980.

the Dominican Government, the Ford Foundation, AID, some businesses, and grants or loans to operate specific projects from other national and international institutions. Its fiscal 1981 active funds totaled RD\$3,806,782.<sup>11</sup>

The philosophy of the Association is that the "impresarial condition (which implies the possession of intellectual, technological, and capital resources) constitutes a societal privilege in a developing country, whose unavoidable counterpart is the responsibility to effectively contribute to social progress and collective economic involvement."<sup>12</sup> At the same time, active participation of individual enterprises is encouraged.

This philosophy has led to a wide variety of activities: helping business and other institutions get started, creating new endeavors, lending support to existing institutions, operating some organizations, and joining with other agencies in cooperative development. Some of the major areas of Association activity include the following:<sup>13</sup>

- Superior Institute of Agriculture (Instituto Superior de Agricultura, ISA): secondary, bachelors degree, and masters programs in several agricultural fields; associated with Catholic University Mother and Teacher (Universidad Catolica Madre y Maestra)
- Agricultural Development Center (Centro de Desarrollo Agropecuario): now turned over to the Secretariat of State for Agriculture as Centro Norte para el Desarrollo Agropecuario (CENDA)
- Center for Economic and Food Research (Centro de Investigaciones Economicas y Alimenticias): located at and integrated with ISA
- Center for Animal Research and Production Improvement (Centro de Investigacion y Mejoramiento de la Produccion Animal, CIMPA): works in coordination with the

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<sup>11</sup>Fernando Pellerano & Asociados, Asociacion para el Desarrollo, Inc., Santiago, "Estados Financieros y Opinion de Contadores Publicos Autorizados," Santo Domingo, 31 de octubre de 1981.

<sup>12</sup>Asociacion para el Desarrollo, "Memoria Anual," Junta Directiva, 1981-1981, Santiago, 26 de marzo de 1982.

<sup>13</sup>Brief case studies of some of these are included in later sections of this report.

Secretariat for Agriculture, ISA, Central Bank, Special Fund for Agricultural Development, and the Food and Agriculture Organization of the United Nations (FAO)

- Fund for the Advancement of the Social Sciences (Fondo para el Avance de las Ciencias Sociales): library, seminars, courses, research, and professional preparation in the social sciences and related disciplines
- Professional Development: a wide range of efforts to train Dominicans or help them obtain training in many fields
- Promotion of Banking and other Financial Institutions: Cibao Savings and Loan Association (Asociacion Cibao de Ahorros y Prestamos), the first in the nation; Popular Dominican Bank (Banco Popular Dominicano), the first private bank with Dominican capital; Dominican Financial Company (Compania Financiera Dominicana), the first of its kind; and Dominican Investment Corporation (Corporacion Dominicana de Inversiones), which combines management training and enterprise development
- Regional Industrial Development (Desarrollo Industrial de la Region): several activities in small- and medium-size industries, some located in the Santiago free zone, but including agriculture and agro-industry; includes Social Action to Promote Rural Development (Accion Social de Promocion Humana Campesina), which works in conjunction with the Diocese of Santiago program of social and economic welfare, principally through groups of rural residents; and Dominican Seed Processors (Procesadoras de Semillas Dominicanas), now a private company formed through member shares and with assistance from the Organization of American States
- New Crops Project (Proyecto de Cultivos Nuevos): a recent addition; set up to study the feasibility of the introduction of different crops in an area, provide training about them, and furnish credit for some of the new plantings, such as pineapples, sisal, African palm, and jojoba

The Association also promotes many educational activities in addition to those included in this list. Seminars, courses, and long-term programs are fostered in conjunction with other institutions, both public and private. Many of these are co-sponsored by such organizations as AID, the Ford Foundation, and the Inter-American Development Bank.

As will be discussed more fully in another section of this report, many of the founders of Catholic University were also members of the Association, and they remain active in the plans and development activities of the university. The Association's direct aid to the university, its assistance in development and fund raising, as well as mutual programming, have brought about many new educational activities. As an example of development and mutual assistance, the students from the Superior Institute of Agriculture take all their nonagriculture courses at UCMM; further, the agriculture courses are credited toward the degree from that institution. This private sector initiative is seen by many national and international officials as a major contribution to the Dominican Republic. The Association and the university also worked closely in the founding of the Montemar Hotel School in Puerto Plata, a graduate study center in Santo Domingo, and the new masters program in agricultural administration at the Institute of Agriculture.

The Free Zone and Industrial Park of Santiago is another area of Association cooperation with other institutions. The Dominican Government founded the endeavor, and the Association assists in channeling enterprises into the area and in helping to finance some of them.

An unusual collaboration between the private and the public sectors is Plan Sierra, a combined effort of the State entities of education, health, roads, agriculture (extension, research), a commercial bank, the Investment Fund for Economic Development (FIDE) of the Central Bank, and the Agricultural Bank. Stimulated by members of the Association, the Catholic church, and the Government, the organization works toward soil conservation, reforestation, crop production, and social and economic improvement of the residents of this very mountainous area.

As can be gleaned from these brief descriptions of some of the work of the Santiago Association for Development, the members employ a diverse set of approaches toward achieving progress. The group, completely from the private sector, creates or helps to create private enterprises, banking and other financial institutions, private education institutions, research entities, and collaborates with other private sector groups and with the public sector to achieve education, technical assistance, and credit molded into a workable whole. Further, the Association does not believe that it must retain control of the organizations indefinitely. A research and demonstration program (CENDA) was turned over totally to the public sector after a few years. The Superior Institute of Agriculture is scheduled to become an integral part of the Catholic University soon. Several businesses have been sold. It sees itself primarily as a generator of ideas. Those ideas may be controlled in the early stages by the Association or blended into a

cooperative effort, the aim of which is to guarantee the ultimate independence of the programs it generates.

An equally important characteristic of the Association is that it insists on a combination of education in preparation for gaining credit to finance an enterprise, and followup technical assistance to ensure continuing success. At the same time, when the Association recognizes a deficiency in knowledge about the subject to be undertaken, it obtains that information or helps create a facility that will secure it. These four factors--pre-education, credit, technical assistance, and technical/scientific information--are considered by the members to be absolutely necessary for success in development. The Association's history confirms that principle. Finally, the organization has a substantial record of assessing requests for credit or assistance and sometimes advising the applicant that one or more of the elements is unnecessary. In several cases, the Association was able to point out that credit was not needed, that the problem lay in the area of technology or management. Often, it was able to suggest remedies for the problem and to facilitate satisfaction of the applicant's need. That attitude demonstrates adherence to its development objectives, even if it means denying profit from a loan to one of its affiliate organizations.

### 3. Other Regional Development Associations

The early Santiago association model of business people organizing directly to influence development has, in recent years, stimulated groups in other parts of the Dominican Republic to form similar associations. By August 1980, six new regional development associations had completed their incorporation for the following areas: Salceda, La Vega, Valverde Province, Duarte Province, Puerto Plata, and Espaillat Province. The Santiago Association for Development also provides guidance and technical assistance to help these fellow organizations progress more rapidly.

All of these associations list agro-industry as their main activity of interest. Their regions include some small cities and towns, but the rural areas are their primary sources of income. The six, together with the Santiago group, submitted a proposal to the Secretariat for Agriculture in 1980 for an integrated agro-industry program that would cover a large portion of the nation. Increased production of livestock, food grains, edible oil crops, beans, and vegetables were



emphasized.<sup>14</sup> Sugar-substitute crops were also included as an activity that will become increasingly important.

The new associations, through the Secretariat for Agriculture program, will qualify to work with individuals and small farmer groups in an integrated service of credit (via Banco Agricola), training (both that which they provide as well as that from the Research Department and the National Extension Service), and followup technical assistance by the associations and specialized Government agencies.

Also important is the fact that the associations will work with small business and industry in their areas. Using the help furnished through Government agencies, universities, and private sector initiatives, they anticipate creating new enterprises and modernizing or expanding others. They expect that the major part of this assistance will be devoted to the areas of processing, packaging, and merchandising farm products.

These recently formed associations are now on the approved list to negotiate projects through FIDE. Thus, they will have considerable resources at their disposal, both directly and via the Agricultural Bank, commercial banks, the financieras, the Dominican Development Foundation, and the financial institutions for housing, construction, and industry. Whatever the credit source, the associations will take an active role in the planning and monitoring of the projects, as well as assuming some of the financial risk for the projects undertaken, since members' contributions will also be utilized in the process. In turn, international funding may become available since AID, the World Bank, and the Inter-American Development Bank are negotiating capital assistance through the national Government.

One association, the Action Pro-Education and Culture (Accion Pro-Educacion y Cultura, APEC), has been particularly effective. APEC was established in 1964 by the organized private sector to deal with the problems of education and research that were then impeding the growth of industry and commerce. The founding entity was the Chamber of Commerce, Agriculture, and Industry. From the start, APEC saw its role as one of creating new educational institutions related to industry's needs, nurturing them through an initial period, and then spinning them off as independent operating entities, or almost independent, since APEC continues to appoint each entity's board of directors.

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<sup>14</sup>Secretaria de Estado de Agricultura, "Propuesta: Programa de Produccion de Nuevas Tecnologias Agricolas y Cultivos en la Republica Dominicana," Santo Domingo, 1981.

In the early 1960s, there was a tremendous collective impulse in the private sector to pull itself up by its bootstraps--not entirely unrelated to Operation Bootstrap on the next-door island of Puerto Rico. Most of this urge focused on increasing and improving the production of trained personnel. New venture capital was the second major recognized need. Both soon merged, but recognition of the need for trained personnel came first.

The result has been strong support by APEC to a wide range of education and training activities. The main accomplishments in this sector have been the creation of three autonomous (within the APEC structure) institutions:

1. The Institute of Higher Studies (IES), a university-level program specializing in technology, science, engineering, accounting, and business and financial administration
2. The Foundation for Educational Credit (FCE), an "education bank" that makes loans to promising students in all areas of education, but which is heavily used (and subsidized) by the private sector to enable youth to secure advanced training in the fields most important to business and industry
3. The Dominican Institute for Integrated Education (IDEI), a secondary-education-level program of practical and technical training methods. There are no campuses or classrooms. Use is made principally of radio, television, and correspondence--with para-professional monitors and periodic written exams by mail. Some 12,000 Dominicans, young and old, are today enrolled in this program, either learning new skills or qualifying for entrance to the university, or both. IDEI is in many ways one of the most interesting and effective of the country's educational institutions. Its genius, however, rests in its broad base and its reflection of concern by industry and business that educational opportunity be made available to all. IDEI, of course, also contributes directly to private sector needs. It upgrades workers already on the job and expands the pool of youth eligible for university-level technical training.

APEC has also created new institutions of national importance, though less directed toward industry's needs than the ones already mentioned. These include The National Institute for Sex Education; The National School of the Arts; and the Program for Human Resources Research. APEC's current sources of continuing revenue include annual donations from its many company members, income from fees and tuition, and some grants

from the Government, AID, and a variety of private philanthropic organizations, both local and international.

These continuing sources of income were preceded by very substantial capital inputs in the first three years, 1964-1967. APEC members donated \$700,000, the Government \$1 million, and AID made two loans, one for \$1.4 million and another for \$1.7 million; thus of APEC's initial capital resources of \$4.3 million, AID provided approximately three-fourths.

## B. External Donors Other Than AID

A wide variety of grants and loans has been made available to the Dominican Republic through international institutions and bilateral agreements. These, as would be expected, address the Government's priorities for development. For example, in 1980, 39 percent of all external assistance was destined for the combined agriculture, forestry, and fisheries sectors (see Table 9). Humanitarian relief accounted for 16 percent, health 14 percent, while general development issues, policy and planning received 13.2 percent of the nearly U.S.\$13 million furnished from these sources.

### 1. Technical Assistance From the United Nations System

The combined resources from the several UN organizations totaled nearly U.S.\$5 million in 1980. The United Nations Development Programme (UNDP), with more than U.S.\$2 million, was the largest investor in development activities (see Table 9). Agriculture, forestry, and fisheries received the greatest attention, closely followed by general development issues, policy, and planning. UNDP also strongly supported humanitarian relief, natural resources, international trade development, finance, and industry.

Among the other UN entities, the World Health Organization, in conjunction with the Pan American Health Organization, was a substantial provider of assistance, with U.S.\$1.3 million for the health sector. Much of this investment was devoted to the construction of health facilities, the provision of equipment, and staff training. UNFPA divided its support almost equally between population projects and health. UNICEF was active predominantly in the areas of general development issues and education but also provided assistance through health projects. The Food and Agriculture Organization worked primarily with agriculture and forestry (see Table 10).

Table 9. Summary of Externally Financed Technical Cooperation in the Dominican Republic, 1980

Sector	UNDP		UN System Other Than UNDP		Bilateral Programmes		Other		Total	
	\$000	%	\$000	%	\$000	%	\$000	%	\$000	%
General Development Issues,										
Policy and Planning	532.8	24.5	162.0	6.0	57.0	5.2	963.3	14.0	1,715.1	13.2
Natural Resources	256.2	11.5	--	--	--	--	--	--	256.2	2.0
Agriculture, Forestry and Fisheries	578.4	26.5	141.5	5.0	609.8	57.0	3,739.2	54.1	5,058.9	39.0
Industry	169.5	8.0	35.0	1.0	7.5	0.7	67.0	0.4	279.0	2.2
Transport & Communications	26.9	1.0	--	--	--	--	--	--	26.9	0.2
International Trade										
Development Finance	218.2	10.0	--	--	--	--	--	--	218.2	2.0
Population	45.9	2.0	309.9	11.0	--	--	--	--	355.8	2.8
Human Settlements	--	--	60.9	2.0	--	--	--	--	60.9	0.5
Health	79.6	3.5	1,708.2	62.0	--	--	26.8	0.4	1,814.6	14.0
Education	4.9	0.2	349.0	13.0	181.0	16.9	171.0	2.5	705.9	5.5
Employment	--	--	--	--	200.0	18.5	--	--	200.0	1.6
Humanitarian Aid Relief	260.0	12.0	--	--	--	--	1,819.6	26.4	2,079.6	16.0
Culture	--	--	--	--	11.6	1.0	33.5	0.5	45.1	.4
Science and Technology	16.4	0.8	--	--	7.4	0.7	117.6	1.5	78.4	.6
Sub-total	2,188.8	100.0	2,766.5	100.0	1,074.3	100.0	6,938.0	100.0	12,967.6	100.00
Estimated Disbursements	--		--		1,700.0		--			
Total	2,188.8	100.00	2,766.5	100.0	2,774.3	100.00	6,938.0	100.0	14,667.6	100.00
Percentage of Grand Total of Assistance	15%		19%		19%		47%		100%	

Source: United Nations Development Programme, Dominican Republic.

Table 10. Multilateral Technical Assistance Cooperation Through  
the UN System Other Than UNDP  
(in thousands of U.S. dollars)

Sector	UNICEF	UNIDO	FAO	UNFPA	UNESCO	WHO/PAHO	HABITAT
General Development Issues, Policy and Planning	162.0	--	--	--	--	--	--
Natural Resources	--	--	--	--	--	--	--
Agriculture, Forestry and Fisheries	--	--	141.5	--	--	--	--
Industry	--	35.0	--	--	--	--	--
Transport and Communications	--	--	--	--	--	--	--
International Trade and Development Finance	--	--	--	--	--	--	--
Population	--	--	--	309.9	--	--	--
Health	44.2	--	--	335.1	--	1,328.9	--
Education	335.5	--	--	--	14.0	--	--
Employment	--	--	--	--	--	--	--
Humanitarian Aid and Relief	--	--	--	--	--	--	--
Culture	--	--	--	--	--	--	--
Science and Technology	--	--	--	--	--	--	--
Human Settlements	--	--	--	--	--	--	60.9
Total	541.7	35.0	141.5	645.0	14.0	1,328.9	60.9

Source: United Nations Development Programme.

## 2. Bilateral Agreement Technical Assistance

The United States provides the largest amount of external bilateral assistance funds. These were devoted primarily to rural resources and education. (See Table 11 for the 1980 figures and Section C below for further details.) Spain has recently increased its development activities in the Dominican Republic, and plans for additional help are being formulated. West Germany, the United Kingdom, France, and Japan were expected to contribute to development, too, but the amount of their contributions was not available when UNDP prepared its annual report.

The Dominican Republic does not have official relationships with the Eastern Bloc countries. However, assistance consisting of scholarships to study in the Soviet Union was mentioned; these were reportedly arranged directly with the individuals involved through intermediary countries or Soviet Embassy representatives from other countries of the region.

## 3. Regional Cooperation Assistance

In addition to the participation of the Pan American Health Organization, included with the United Nations program, two other regional groupings provided assistance in 1980, and their efforts are continuing. The Organization of American States helped finance activities in the following areas:

- Tax administration
- Integrated development in the Cibao region
- Fishery resources studies
- Project studies on African palm
- Science and technology information system
- Special project on generic medicine
- Training for primary school supervisors
- Labor education
- Center for technical, intermediate, and higher education
- Adult education for integrated development

Table 11. Bilateral Technical Assistance Cooperation by Country, 1980  
(in thousands of U.S. dollars)

Sector	USA	Spain	West Germany	United Kingdom	France	Japan
General Development Issues, Policy and Planning	50.0	7.0	Nil	Nil	Nil	Nil
Agriculture, Forestry and Fisheries	608.0	3.8	NA	NA	NA	NA
Industry	Nil	7.5	NA	Nil	Nil	Nil
Health	Nil	Nil	Nil	NA	Nil	NA
Education	181.0	NA	NA	Nil	NA	Nil
Employment	200.0	Nil	Nil	Nil	Nil	Nil
Culture	Nil	11.5	Nil	Nil	Nil	Nil
Science and Technology	Nil	NA	NA	NA	Nil	NA
Natural Resources	Nil	Nil	NA	Nil	NA	Nil
Total	1,039.0	29.8	NA	NA	NA	NA

NA = Technical and/or financial assistance was provided, but the amount of expenditures involved was not available.

Source: United Nations Development Programme.

- Development of special education
- Restoration and microfilming of documents
- Museum of the Dominican Man
- Evaluation of nonconvertible sources of energy
- Scientific and technological development

The total investment constituted a substantial contribution when seen within the context of the relatively limited resources of the Organization of American States (OAS).

The Inter-American Institute for Cooperation in Agriculture (IICA), an OAS institution, maintains an office in Santo Domingo. The personnel work in conjunction with Dominican agencies in facilitating studies and providing some technical assistance. The 1980 activities included strengthening of land and water resource development and administration, and technology generation and transfer, principally through the Agricultural Extension Service. Historically, IICA has worked most closely with extension, agrarian reform, rural organization, and production on small- and medium-size farms. Funds for scholarships for short courses, seminars, and for the masters degrees have been provided.<sup>15</sup>

The current projects continue the earlier work in extension, rural organization, and technology transfer, including scholarships. Additionally, special projects have begun on farm-product commercialization, women in agro-industry, planning, and soils and water. The latter, for example, has already produced a publication important to future projects on water resources.<sup>16</sup> Projects of IICA and the Secretariat for Agriculture have benefited from additional funds furnished by the Kellogg Foundation and the Swiss Government.

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<sup>15</sup>Instituto Interamericano de Cooperacion para la Agricultura, "Programa Operativo del IICA en Republica Dominicana: Accion Realizada en 1981 y Propuesta Para 1982," Santo Domingo, febrero de 1982.

<sup>16</sup>Republica Dominicana Instituto Nacional de Recursos Hidraulicos y el Instituto Interamericano de Cooperacion para la Agricultura, "Desarrollo y Administracion de Recursos Hidraulicos en la Republica Dominicana: Programa de Fortalecimiento Institucional," Santo Domingo, diciembre de 1981.



The European Economic Community and the West German Association for Aid to the Leprous contributed funds and supplies for housing reconstruction and rehabilitation after the disastrous hurricanes of 1979. Several other relief organizations also participated, chiefly through the existing frameworks of Catholic Relief Services and Church World Services. The Inter-Governmental Committee for Migration sponsored a project of technical assistance to the private sector, mainly in the field of industry.<sup>17</sup>

#### 4. Capital Assistance Activities (Other Than U.S.)

The Inter-American Development Bank is active in providing capital for several long-term development projects. Its 1980 projects included the following:

- Reconstruction of basic irrigation facilities in the Cibao Valley
- Expansion and improvement of the Haina Port
- Construction of an earth dike on the Bao River
- Expansion and improvement of the capital's water supply
- Reconstruction of the Duarte Highway
- Agriculture sector loan
- Agrarian Institute loan
- Loan to various public sector institutions
- Loan to the Agriculture Bank
- Development of small- and medium-size industry through FIDE
- Financing of the second development phase of UCM

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<sup>17</sup>United Nations Development Programme, "The Resident Representative's Report on Development Co-operation for 1980: Dominican Republic," Santo Domingo, 1981.

-- Financing for PIDAGRO II (agriculture and conservation)

-- Hurricane reconstruction

It also provided other smaller loans for projects. The preponderance of these were for infrastructure improvement, as can be seen from the above designations. The combined 1980 expenditure for these projects was about U.S.\$75 million.<sup>18</sup>

The International Bank for Reconstruction and Development was also an important source of capital in 1980, providing loans of U.S.\$40 million. U.S.\$25 million of this was for hurricane rehabilitation; the remainder was for education reform, agrarian reform, irrigation, road rehabilitation and maintenance, preventive health, tourism, and topographic work.

Japan provided U.S.\$16.4 million in 1980 for the modernization of the telecommunications system. Venezuelan funds were involved in the International Development Bank (IDB) hurricane reconstruction work, and Swiss money was channeled through the IDB loan for small- and medium-size industrial enterprises. Under the San Jose, Costa Rica agreement, Venezuela and Mexico will provide some capital assistance through long-term financing of oil imports. Negotiations are currently underway with Venezuela for a future working arrangement.<sup>19</sup>

The first step in the negotiations for additional help from the International Monetary Fund (IMF) was in process during July 1981.<sup>20</sup> The July 1981 IMF assessment of the previous five years showed an increasingly large gap between gross domestic product and gross domestic expenditures, and the gap is considered to have increased since that time. The proposed assistance from IMF would enable additional growth within a restrained internal expenditure pattern. Many sectors,

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<sup>18</sup>Moreno, Jaime and Aybar, Julio, Analisis de la politica industrial, Santo Domingo, Colegio Dominicano de Ingenieros y Arquitectos, agosto de 1981.

<sup>19</sup>United Nations Development Programme.

<sup>20</sup>"Afirman SJB Contara con 845 Millones de Prestamos," El Dia 1, 2, 30 de junio de 1982.

however, fear that devaluation of the peso is to be expected.<sup>21</sup> Government and business leaders have expressed their reservations concerning this step.

### C. AID's Role as Donor

The United States began its assistance to the Dominican Republic at least as early as 1942. The first programs were aimed at increasing the production of agriculture and mines, especially to sustain shipments of food and raw materials for the war. Experimental plantings of rubber, sisal and other fiber crops, and some edible oil seed crops were undertaken as well. Subsequently, the Point IV program continued some of the previous work and provided technical assistance to other segments of agriculture. The Alliance for Progress helped with Dominican projects in agriculture, rural development, health, and education before it was withdrawn because of human rights disagreements with the Trujillo regime.

#### 1. The Twenty-Year Perspective

The United States began negotiations to help the new Government almost immediately after the death of Trujillo. A PL 480 food program was begun in January 1962; a capital assistance agreement was signed in March of that year; commodity imports and budgetary support started in September; and a housing loan was approved in November (see Tables 12 and 13). Loans and grants have been tendered regularly since then through bilateral agreements between the two governments.<sup>22</sup> Both the private and the public sectors have benefited from AID assistance provided during the period 1963-1982. It is estimated that of the approximately U.S.\$500 million assistance, almost half was destined for private sector development.

The loans targeted almost exclusively for the private sector included the following categories:

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<sup>21</sup>Arias Betancourt, Mario, "Banco Central Asegura no Devaluacion Peso," El Dia II(317): 1, 2, 17 de julio de 1982; "La Asistencia del Fondo," Listin Diario; Perez, Maximo Manuel.

<sup>22</sup>U.S. Agency for International Development, "Annual Budget Submission: FY 1984, Dominican Republic," Washington, D.C., June 1982; USAID/Dominican Republic, Statistical Fact Book, Dominican Republic, Santo Domingo, June 1977.

Table 12. AID Dollar Grants, Loans,  
and Total Assistance, 1962-1982<sup>1</sup>  
(in U.S.\$ thousands)

Fiscal Year	Grants	Loans	Total
1962	965	-	965
1963	25,480	26,817	52,297
1964	927	-	927
1965	42,283	25,398	57,681
1966	53,653	64,426	118,079
1967	11,594	21,636	28,230
1968	5,624	25,825	31,449
1969	4,322	8,000	12,322
1970	3,405	2,075	5,480
1971	2,570	-	2,570
1972	1,755	-	1,755
1973	1,026	5,100	6,126
1974	563	12,000	12,563
1975	816	-	816
1976	904	4,800	5,704
1977	201	15,000	15,201
1978	254	21,500	21,754
1979	1,638	10,000	11,638
1980	7,898	12,000	19,898
1981	2,680	4,250	6,930
1982	47,882	21,888	69,700
Total	231,440	270,155	501,555

<sup>1</sup>Because of differing regulations, some local currencies were apparently included in some funds; the total loans in this table and in the next therefore do not agree exactly.

Source: U.S. Agency for International Development, "Annual Budget Submission: FY 1984;" USAID/Dominican Republic, Statistical Fact Book.

Table 13. USAID Supporting and Development Loans by Purpose, Agreement Date, and Amount, 1962-1982  
(in U.S.\$ thousands)

Purpose	Dominican Institute	Project Date <sup>1</sup>	Development Loan	Supporting Loan	Total <sup>2</sup>
Budgetary Support, Incl. Development	GODR	Mar. 1962	--	24,720	24,720
Housing Construction	BNV	Nov. 1962	2,097	--	2,097
Economic Development Support	GODR	Aug. 1964	--	4,000	4,000
Irrigation Project	INDRHI	Nov. 1964	1,475	--	1,475
Feasibility Studies	ONAPLAN	Jan. 1965	982	--	982
Economic Development Support	GODR	Jan. 1965	--	4,000	4,000
Private Investment Fund	Central Bank	Feb. 1965	4,941	--	4,941
Savings & Loans Associations	BNV	Jan. 1966	4,967	--	4,967
Budgetary Support, Agriculture	GODR	May 1966	--	10,000	10,000
Agricultural Credit	BAGRICOLA	May 1966	9,477	--	9,477
Budgetary Support	GODR	June 1966	--	15,000	15,000
Budgetary Support	GODR	June 1966	--	25,000	25,000
Community Development	ODC	Mar. 1967	8,700	--	8,700
Urban Improvement	GODR	May 1967	--	5,000	5,000
Feasibility Studies	ONAPLAN	June 1967	1,536	--	1,536
Educational Credit	ECF	June 1967	1,400	--	1,400
Private Development	FDSA	June 1967	5,000	--	5,000
Budgetary Support	GODR	Mar. 1968	--	16,000	16,100
Cooperative Development	IDECOOP	June 1968	2,627	--	2,627
Maternal and Infant Care	SESPAS	June 1968	7,100	--	7,100
Private Investment	Central Bank	June 1969	8,000	--	8,000
Educational Credit	ECF	June 1970	1,750	--	1,750
Pan American Development Foundation	DDF	--	325	--	325
Private Development	Financiera	Nov. 1972	5,100	--	5,100
Agricultural Sector Loan I	SEA	Oct. 1974	12,000	--	12,000
Health Sector Loan I	SESPAS	Oct. 1975	4,800	--	4,800
Agricultural Sector Loan II	SEA	Aug. 1976	15,000	--	15,000
Health Sector Loan II	SESPAS	Nov. 1978	8,000	--	8,000
African Swine Fever Eradication	SEA	Dec. 1978	6,000	--	6,000
Education Sector Loan	SEEBAC	Dec. 1978	7,500	--	7,500
Rural Roads Maintenance	SEOPC	Sept. 1979	10,000	--	10,000
Hurricane Reconstruction	GODR	Jan. 1980	12,000	--	12,000
Natural Resources and Management	SEA	Aug. 1981	10,500	--	10,500
Human Resources Development	ECF	Sept. 1981	4,250	--	4,250
Total			155,527	103,820	259,347

<sup>1</sup>Represents date when the project agreement was signed.

<sup>2</sup>Represents data as shown on USAID controller reports.

- Housing construction
- General economic development
- Irrigation
- Private investment fund
- Agricultural credit
- Educational credit
- Private development
- Cooperative development
- Natural resources development

Although some institutional development monies to improve management and technology were included in these loans, many private as well as public agencies were involved. In many cases, the funds channeled through the Secretariat of State for Agriculture, the Central Bank, and the Agricultural Bank were directly destined for improvement of production by the private sector.

While the details of all the earlier U.S. contributions to development are difficult to ascertain (because single loans or grants were often ticketed for more than one purpose), the research by the study team and file documents in USAID/Dominican Republic furnished important information on some of the major uses. One of the immediate 1961-1962 concerns was to help augment the activities of the private sector. The example set by the Santiago Association for Development and some other groups in the country gave confidence that a healthy environment for development existed and that investment in the private sector was worthwhile.

An early intervention of the Santiago group was the formation of financial institutions: Banco Popular, Cibao Association of Savings and Loans, and an intermediary organization, the Compania Financiera Dominicana.<sup>23</sup> At about the same time, the Dominican Development Foundation was also begun.<sup>24</sup> The United States therefore responded to the credit needs of the private sector by making some loan money available to strengthen the capacities of the latter two institutions. Financiera Dominicana, for example, benefited from an early loan of U.S.\$5 million. The immediately perceivable results of careful loans, coupled with the appropriate training and followup, stimulated

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<sup>23</sup>Asociacion para el Desarrollo, "Memoria Anual."

<sup>24</sup>Fundacion Dominicana de Desarrollo, "DDF Experience in Promotion and Financing to Rural Groups," Santo Domingo, October 1980.

a loan of the same amount several years later.<sup>25</sup> Agro-industry was the focus of much of the earlier work of the Financiera Dominicana and the Dominican Development Foundation, which also received loan assistance.

During the first decade or so, several other intermediary financial institutions were created. The very small private sector investment prior to 1962, and the relatively low level of development generally, constituted a substantial pressure on the quality of life for the vast majority of the Dominican population, which had remained poor and with little education. An early effort was made in housing, a badly neglected area.<sup>26</sup> AID committed considerable funds for increasing the capacity of the private sector to meet housing needs. The United States also agreed to assume the risk involved in providing low-cost housing by guaranteeing housing loans made by private financial institutions.<sup>27</sup>

It also became apparent that larger development projects would be needed if Dominican agriculture were to reach its potential. Investments were therefore earmarked for expanded and improved irrigation systems, market roads, the communications system, and for training both private and public sector individuals so that they could carry out the needed tasks. Many of the early university studies were done outside the Dominican Republic, especially at Texas A&M University and the Inter-American Institute for Cooperation in Agriculture in Costa Rica.<sup>28</sup> Local institution-building to meet educational needs was also addressed early in the development period. Initiatives by private individuals and groups led to the formation of vocational schools, a private university, and several other training mechanisms within the Dominican Republic. Their potential for the future of the country was enormous; the Alliance for Progress and AID helped in these efforts with capital loans, development grants, and technical assistance.

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<sup>25</sup>USAID/Dominican Republic, "Memorandum: FIDE Institutional/Financial Analysis and Summary of Interviews," Santo Domingo, May 10, 1982 (draft).

<sup>26</sup>U.S. Agency for International Development, "Dominican Republic Shelter Sector Assessment," Vol. I & II, Washington, D.C., April 1980.

<sup>27</sup>En Nuestros 19 Anos Seguimos Hablando de Numeros," La Noticia:17, 29 de julio de 1981.

<sup>28</sup>Instituto Superior de Agricultura, "Memoria 1° de Agosto de 1980-31 de Julio de 1981," Santiago, 1981.

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The Superior Institute of Agriculture and Catholic University were early recipients of development funds.<sup>29</sup> Later help was also given to a second university and to several of the specialized training institutions formed by groups of Dominican professionals and business people.<sup>30</sup>

Another phase of AID investment was assistance in the formation of groups known as private and voluntary organizations, to help them foster their own development. The primary thrust has been rural organization efforts assisted by the Peace Corps, Catholic Relief Services/Caritas, and Church World Services, with the help of PL 480 funds and commodities.<sup>31</sup> Many segments of the rural population are so poor that they cannot individually take advantage of available credit or education opportunities. By banding together, however, they offer more security to lenders, and development agencies are more willing to commit their funds to cooperative projects. In recent years, the urban population has also received help from the organizations indicated. Formation of urban workers in informal groupings, solidarios (persons working together), has produced excellent results in the cities as well as in the rural areas.<sup>32</sup> Formal cooperatives are not common in the Dominican Republic except for savings and loan associations, but those that exist have benefited from AID-sponsored activities, particularly from a development loan in 1968 in the amount of U.S.\$2.6 million.

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<sup>29</sup>Instituto Superior de Agricultura; Universidad Catolica Madre y Maestra, "Hotel Escuela Montemar: Plan de Formacion Hotelera," Puerto Plata, 1982.

<sup>30</sup>Accion Pro-Educacion y Cultura, "APEC, Objetivos...Logros...Proyectos...", Santo Domingo, n.d; Banco Central de la Republica Dominicana, "Fondo de Inversiones para el Desarrollo Economico: Informe Trimestral Julio-Septiembre 1980," Santo Domingo, 1980; Instituto Dominicano de Tecnologia Industrial (INDOTEC), "Boletin Informativo" 4(5), Mayo 1978; Nunex Collado, Agripino, Le UCMM, An Nuevo Estilo Universitario en la Republica Dominicana, Santiago, Universidad Catolica Madre y Maestra, 1977; USAID/Dominican Republic, Statistical Fact Book.

<sup>31</sup>USAID/Dominican Republic, Briefing Book: the PL-480 Title II Food Program in the Dominican Republic, Santo Domingo, June 1982.

<sup>32</sup>Fundacion Dominicana de Desarrollo, Estatutos, Santo Domingo, 1978.



Strengthened vocational and baccalaureate degree programs were satisfactory for early stages of the development program, especially when augmented by scholarships for personnel to attend U.S. and other foreign universities. This, however, soon changed, and the growing need for higher education became apparent. It is now also recognized that some areas of vocational education are still producing insufficient numbers of well-trained individuals to meet the needs of the private sector and the Government. One of the steps toward satisfying this deficit has been to help the Dominican Government improve its basic education system, which in turn will make more students better able to profit from later vocational and professional education. This, plus the improvements achieved through other projects of AID, other countries, and international organizations, together with the investment by Dominican private groups and the Government, has brought about a rapid period of development in education at all levels, which has been sustained vigorously over a decade or more. Indeed, some areas have advanced so rapidly that they are now in need of still higher levels of technological education which are not available in the country. Money from AID,<sup>33</sup> other donors,<sup>34</sup> and Dominican funds<sup>35</sup> has recently been proposed for programs aimed at the acquisition of such new levels of technological education.

The need for financial control and for channeling funds into their most productive uses brought about the creation of three important Government institutions, which are subsidiaries of the Central Bank: the Agricultural Bank, the National Housing Bank, and the Industrial Development Corporation. Although the Central Bank and these intermediary organizations are public, the ultimate beneficiaries are in the private sector. The capital and operating needs for the creation, modernization, and expansion of the country were so great that even the large sums contributed by the Government could not satisfy these

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<sup>33</sup>USAID/Dominican Republic, "Project Identification Document for Agricultural Training," Santo Domingo, June 1, 1982. (draft)

<sup>34</sup>United Nations Development Programme.

<sup>35</sup>Instituto Dominicana de Tecnologia Industrial (INDOTEC); "INDOTEC Iniciara Curso," Listin Diario :2-B, 9 de julio de 1982; "Que Esta Haciendo el INFOTEP con el Dinero de Usted?" Listin Diario XCIII(23251):2-A, 30 de junio de 1982; "UCMM Clausura un Curso," Listin Diario :3-B, 9 de julio de 1982.

needs if development were to continue. Capital capacity-building loans were furnished by AID and other donors to increase the available capital.

A vital concept within the Dominican development strategy was the partnership between the private and public sectors. As a matter of development strategy, the Dominican Republic has incorporated both sectors into the financial structure for development. Thus, private commercial banks, savings and loans associations, and intermediary institutions (both finance and associated groups) are permitted to utilize credit capacity from the Government finance institutions and, through them, external capital resources.

It became apparent, however, that firm direction was required if development were to be forwarded equitably. Several problems had arisen. Loans to medium-size enterprises, with some security for investment, had prospered. Very small enterprises, however, were a greater risk and many of the private institutions, particularly, were unwilling to assume the security uncertainties, so few small loans were made. The Government, chiefly through the Central Bank and in association with technical and capital assistance from AID and other donors, therefore created the Investment Fund for Economic Development (FIDE) arm of the Central Bank. FIDE's purpose (stated in more detail in Section III.F) is to help assume some of the risk, channel investment into needed sectors, and provide stimuli to those sectors of the economy most crucial to equitable development.<sup>36</sup>

FIDE reviews proposed projects, suggests improvements when required, and recommends disbursements from the Central Bank or one of its subsidiaries. The success of the idea is evident from the large number of projects submitted for FIDE's review. Indeed, the response has been so great that the organization now finds itself deluged with paper work, sometimes severely slowing the approval process. Proposals for improving the efficiency of the operation are under consideration.

This historical review of the partnership between the public sector, private entrepreneurship, and AID and other external donors suggests that much of the rapid development in the Dominican Republic is directly related to the capital investment policies and processes utilized. The most important of these are (1) combinations of assistance to public and private

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<sup>36</sup>Banco Central de la Republica Dominicana, "El FIDE, un Fondo de Desarrollo del Banco Central de la Republica Dominicana," Santo Domingo, 1982.

credit institutions, (2) related public and private institution-building, (3) reasonable yet careful controls of lending policies through risk sharing, (4) improvement of enterprise capability at the medium and small levels, and above all, (5) the insistence that borrowers either demonstrate their capability to utilize the loans properly or accept training and followup technical assistance in order to qualify for the credit.

## 2. Future Plans

The Caribbean Basin Initiative<sup>37</sup> and renewed U.S. interest in private sector development<sup>38</sup> are viewed favorably by Dominican leaders. A proposal prepared for AID/Washington<sup>39</sup> in connection with the new Caribbean program contains a number of proposed activities designed to spur development in the Dominican private sector, both within the Dominican Republic itself and in conjunction with the needs of the neighboring countries of the Caribbean Basin. These plans emphasize diversification of agriculture, marketing programs to enhance inter-Caribbean trade, and product specialization by each nation according to its present and potential resources. Maintenance of financial stability, especially in light of the large deficits being faced by several of the nations, will be a critical general economic facet of the program and of all the projects.

In addition to or as a part of the cooperative development in the Caribbean region, AID proposes to increase its work with the Dominican Republic Government agencies to decrease dependence on sugar by diversifying from cane to other crops and to animal production. The long-range sugar price expectations are pessimistic; at the same time, the Dominican Republic is importing larger and larger quantities of food. The combination is an important part of the growing imbalance of trade and the budget deficits. Similarly, continued deforestation and its accompanying soil erosion are having drastic effects on agriculture, forestry, and hydroelectric generation. In cooperation with the Inter-American Development Bank, the United

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<sup>37</sup>U.S. Congress, "Caribbean Basin."

<sup>38</sup>U.S. Congress, "'New Directions' in Development Assistance: Implementation in Four Latin American Countries," Washington, D.C., Committee on International Relations, 1975.

<sup>39</sup>USAID/Dominican Republic, "Caribbean Basin Initiative," Santo Domingo, June 16, 1982 (draft).

Nations Development Programme, and the Inter-American Institute for Cooperation in Agriculture, AID and the Dominican Government propose a much more intensive effort in reforestation and soil conservation while promoting improvements in the rural areas that will help make them more secure economically while these vital projects are being implemented. Projects for the processing of agro-industrial products will continue; marketing facilities, policies, and diversification projects will also be important. Advanced training for agriculture and related fields is also contemplated to help achieve a higher level of technological development.<sup>40</sup> Much of that education is earmarked for training in the United States and other countries. However, local agricultural training, institutional improvement, and expansion are still needed and are also being programmed.

The private sector will continue as a vital partner in the AID plans. Several important projects, especially to provide greater private loan capacity, are under consideration; the expansion of several key private sector institutions is anticipated. In addition to the fiscal stabilization effort already mentioned in conjunction with the Caribbean Basin Initiative, public sector institutional support is also needed. Help in reducing the rate of population increase and provision of more education and health facilities are also major areas of emphasis in assistance plans for the future.

### III. SELECTED CASE STUDIES: CAPITAL LENDING INSTITUTIONS

The financial institutions of the Dominican Republic are many and varied (see Table 14). They have evolved into a nearly integrated system for development that includes both the private and the public sectors. Each institution has carved out a niche for itself while at the same time cooperating in certain efforts in ways that are unique. The following case studies describe the work of some representative examples of this process and describe the interrelationships among members of the system.

#### A. Compania Financiera Dominicana

Compania Financiera Dominicana was the first private intermediary lending institution created by the private sector

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<sup>40</sup>USAID/Dominican Republic, "Project Identification Document for Agricultural Training."

Table 14. Complete List of Capital Resources Institutions

BANCOS COMERCIALES

Banco de Boston Dominicano, S.A.  
Banco de Reservas de la Republica Dominicana (Estatal)  
Banco de Santander Dominicano, S.A.  
Banco de Comercio Dominicano, S.A.  
Banco Metropolitano, S.A.  
Banco Nacional de Credito, S.A.  
Banco Popular Dominicano  
Bank of America  
City Bank, N.A.  
The Bank of Nova Scotia  
The Chase Manhattan Bank  
The Royal Bank of Canada

BANCOS HIPOTECARIOS

Banco Dominicano de la Construcción, S.A.  
Banco Hipotecario de Santo Domingo, S.A.  
Banco Hipotecario Dominicano, S.A.  
Banco Hipotecario Financiero, S.A.  
Banco Hipotecario Miramar, S.A.  
Banco Hipotecario Popular, S.A.  
Banco Inmobiliario Dominicano, S.A.  
Banco Nacional de la Construcción, S.A.

BANCOS DE DESARROLLO E INVERSION (Privados)

Compania Financiera del Caribe, C. por A.  
Compania Financiera Dominicana, S.A.  
Corporacion Dominicana de Inversiones, S.A.  
Corporacion Financiera Asociada, S.A.  
Corporacion Financiera Continental, S.A.  
Corporacion Financiera Nacional, S.A.  
Financiera Agroindustrial, S.A.  
Financiera Citicorp, S.A.  
Financiera de Desarrollo Industrial, S.A.  
Financiera de Desarrollo y Capitalizacion, S.A.  
Financiera Empresarial, S.A.  
Financiera Industrial, S.A.  
Financiera Interamerica, S.A.  
Financiera La Moneda, S.A.  
Financiera Nacional de Desarrollo, S.A.  
La Nacional Financiera, S.A.  
Sociedad Financiera para el Desarrollo y la Cooperacion, S.A.  
Fundacion Dominicana de Desarrollo

BANCOS PUBLICOS

Banco Agrícola de la Republica Dominicana  
Banco Nacional de la Vivienda  
Banco de los Trabajadores de la Republica Dominicana  
Corporacion de Fomento Industrial  
Banco Central

for the promotion of economic and social development through medium- and long-term loans. It started commercial operations on July 1, 1968,<sup>41</sup> and today has a very active loan portfolio. The establishment of Financiera Dominicana was the outcome of an extended process which began in 1961 when the private sector became more conscious of the role it could play in the economic and social development of the country.

Groups of entrepreneurs in Santo Domingo and Santiago--the latter under the guidance of the Asociacion para el Desarrollo, Inc.--which grew within the new atmosphere of freedom in the early 1960s, joined efforts and successfully created several institutions which have significantly influenced development in the Dominican Republic. The idea for the Financiera Dominicana matured in 1966 during discussions between Dominican leaders and AID. Over the next two years, an AID-assisted feasibility study was done and, based on its recommendations, the Financiera Dominicana was established in March 1968. In May 1968, an AID loan for U.S.\$5 million was made to the Financiera to provide lending capital and some technical assistance. The Financiera itself rapidly raised an additional \$1.5 million from among its shareholders and began to issue bonds. By December 31, 1971, \$11 million in loans had been made with a delinquency rate of .05 percent (which has since improved to the point where delinquency has been almost completely eliminated). In June 1972, AID made a second loan of U.S.\$5.1 million. In addition to these loans, the Financiera has used the reflows from the first loan, its own independent resources, and FIDE drawdowns to achieve its goals.

Among the projects financed by Financiera Dominicana is a cattle development program which it fostered almost from its inception. The loans granted are oriented basically to the purchase of cattle (for breeding and for beef), development of pastures, purchase of inputs, and equipment acquisition. With the purpose of facilitating the supervision of investments and to make its promotional efforts more effective, Financiera Dominicana concentrated its efforts in this field in the northern region of the country, setting up the headquarters of this program in the city of Santiago. Among the reasons for the concentration of cattle loans on the North Coast was that the program, while encouraging the production of milk, beef, and foodstuffs, would also complement the tourism development program being implemented by the Government in this area of the country.

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<sup>41</sup>Compania Financiera Dominicana, "1980 Annual Report," Santo Domingo, 1980.

It has also been the policy of the Financiera Dominicana to encourage investment in projects in the agribusiness sector, which include production, processing, and marketing of food-stuffs. This emphasis is based on the view that the agriculture sector is national priority number one.

Financiera Dominicana has also given strong support to the industrial sector, as evidenced by the fact that during its first 17 years of operations, 48 percent of the loans granted were destined for the industrial sector, covering a wide variety of activities including the manufacture of containers, clothing, textiles, construction materials, chemicals, and pharmaceutical products.

Financiera Dominicana introduced bonded warehouses operated by the private sector in 1971. It obtained the necessary financing from national and international sources and negotiated with the corresponding authorities for the creation of the legal framework to organize ALMACARIBE, the first company of its kind established in the Dominican Republic.

Sixty-three percent of the loans granted by Financiera Dominicana during its first 14 years of activities were for amounts under RD\$50,000. This reflects its policy of promoting the creation of rationally distributed small-industry units as a means of contributing to a more equitable distribution of income and to intensive labor utilization. Examples are the manufacture of agricultural equipment, the construction of storage tanks for molasses used as cattle feed, and stocks for the handling of cattle.

The absorption and assimilation of new production procedures and techniques have been key objectives of Financiera Dominicana. Examples are Tatum Farms of Georgia, which was asked to introduce the technology of fertile egg production, and LEVAPAN of Colombia, for the manufacture of yeast.

Another pioneering example of technological transfer by Financiera Dominicana is its promotion of certified seed production through the promotion and financing of the company Procesadora de Semillas Dominicanas (PROSEDOCA), in conjunction with the Santiago Association for Development. The Financiera contributed to the introduction of a new process for the selection of seeds in the field and their cleaning and classification in the plant, treatment against diseases, and subsequent marketing.

Financiera Dominicana made its first issue of economic development bonds on July 1, 1974, followed by a second issue in November 1975. Both issues were placed in their entirety. In addition, on October 30, 1977, Financiera placed on the market its first issue of subordinated mortgage debentures in

the amount of RD\$500,000. It now has 10 times that amount in circulation.

### 1. Information Transfer

In September 1971, Financiera Dominicana started a library which specializes in economic matters, and is used not only as an internal source of information but also as a public center of information, with publications and bibliographic exchanges with local and international institutions. The library has 9,000 volumes in addition to newspaper, journal, and document collections. Since November 1976, it has been formally affiliated with the Centro Latinoamericano de Documentacion Economica y Social (CLADES) of CEPAL. This permits the Financiera to benefit from technical assistance, centralized preparation of working documents, seminars, and other training in the field of bibliographic services. A close relationship is also maintained with the Centro de Documentacion (CEDOM) of the Asociacion Latinoamericana de Instituciones Financieras de Desarrollo (ALIDE).

The Financiera Dominicana has an excellent publications program in the fields of economics and finance. The most popular of its publications is Cifras Dominicanas (Dominican Figures), published in English and Spanish in annual versions since 1970. It summarizes the most relevant national statistics and economic data. Dominican Figures has had a wide and favorable reception because of its practical format and because of the diverse, condensed information it contains. All Financiera Dominicana publications are distributed without cost to interested institutions and individuals.

In 1970, Financiera Dominicana started a summer internship program for economics and business students to enable them to spend their summer vacations working in the Financiera. Originally, the program was developed jointly with the Universidad Catolica Madre y Maestra of Santiago exclusively for students of this university, but since 1971 it has been expanded to include foreign students, offering them the opportunity to familiarize themselves with the country and to contribute to a better understanding abroad of Dominican problems.

The company also takes part in two specific international training programs: the Top Management Program, held every year in the Dominican Republic by the Instituto Centroamericano de Administracion de Empresas (INCAE), known as Pan-Caribbean, and the management course, held annually in Caracas, Venezuela, by the Instituto de Estudios Superiores de Administracion (IESA), with the participation of the Instituto para la Integracion de America Latina (INTAL) and the Inter-American Development Bank



(BID).<sup>42</sup> Mention should also be made of the participation of the Financiera Dominicana in the training programs offered by ALIDE.

## 2. The Past as Prologue

The summary balance sheet shown in Table 15 provides an up-to-date (June 30, 1982) picture of Financiera Dominicana's financial situation. It is estimated that by the end of this year, Financiera Dominicana will have made over 1,000 loans totaling over \$91 million in 36 different economic areas (see Table 16). But that is far from the whole story.

Table 15. Financiera Dominicana Balance Sheet As of  
June 30, 1982 (RD\$)

<u>Assets</u>	<u>Amount</u>
Cash and Bank Deposits	2,268,406
Loans	23,888,669
Investments	3,650,864
Accounts Receivable	1,304,132
Real Estate, Furniture, and Equipment (net)	1,182,299
Other Assets and Deferred Charges	606,654
<b>Total Assets</b>	<b><u>32,901,024</u></b>
 <u>Liabilities and Capital</u>	
Short-Term Obligations	7,936,128
Long-Term Obligations	11,219,063
Bonds in Circulation	5,058,610
Trust Funds	540,000
Other Debts	2,619,180
Paid-in Capital, Surplus, and Reserves	5,528,043
<b>Total Liabilities and Capital</b>	<b><u>32,901,024</u></b>

Source: La Prensa.

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<sup>42</sup>Compania Financiera Dominicana, "1980 Annual Report."

Table 16. Distribution by Activity of Financiera Dominicana Loans

Branch of Activity	No.	%	Total RD\$
Agricultural and Livestock Production	315	44.6	14,436,760
Other Mining	3	0.4	109,918
Food Manufacturing	75	10.7	12,935,263
Beverage Industries	5	0.7	708,000
Manufacture of Textiles	16	2.3	1,148,677
Manufacture of Wearing Apparel, Except Footwear	10	1.4	579,460
Manufacture of Leather and Products of Leather, Leather Substitutes, and Fur, Except Footwear and Wearing Apparel	4	0.6	200,010
Manufacture of Footwear, Except Vulcanized or Molded Rubber or Plastic Footwear	1	0.1	25,000
Manufacture of Furniture and Fixtures, Except Primarily of Metal	8	1.1	155,500
Manufacture of Paper and Paper Products	30	4.2	4,906,784
Printing, Publishing, and Allied Industries	21	3.0	809,688
Manufacture of Industrial Chemicals	22	3.1	4,653,272
Manufacture of Other Chemical Products	13	1.8	1,919,339
Manufacture of Rubber Products	17	2.4	1,369,911
Manufacture of Plastic Products Not Elsewhere Classified	27	3.8	7,426,165
Manufacture of Other Nonmetallic Mineral Products	20	2.8	2,466,675
Iron and Steel Basic Industries	1	0.1	223,305
Manufacture of Fabricated Metal Products, Except Machinery and Equipment	31	4.4	2,548,115
Manufacture of Machinery, Except Electrical	13	1.8	710,478
Manufacture of Electrical Machinery Apparatus, Appliances, and Supplies	1	0.1	12,312
Manufacture of Transport Equipment	4	0.6	188,500
Other Manufacturing Industries	4	0.6	255,000
Water Works and Supply	1	0.1	60,000
Construction	16	2.3	1,138,725
Wholesale Trade	1	0.1	47,900
Hotels, Rooming Houses, Camps, and Other Lodging Places	1	0.1	40,000
Land Transport	6	0.8	1,023,000
Water Transport	1	0.1	125,000
Air Transport	2	0.3	339,295
Services Allied to Transport	2	0.3	158,915
Financial Institutions	1	0.1	500,000
Business Services, Except Machinery and Equipment			
Rental and Leasing	15	2.1	1,253,000
Education Services	2	0.3	988,500
Repair Services Not Elsewhere Classified	8	1.1	108,825
Miscellaneous Personal Services	3	0.4	117,750
Activities Not Adequately Defined	9	1.3	1,142,450
Totals	709	100.0	64,801,492

Source: Compania Financiera Dominicana, "1980 Annual Report."

It has been difficult to quantify the impact on the economy of this first private development financing institution in the modern era, but there has been much to suggest that the impact has been great and is snowballing. One point is that where there was none, and then one, there are now 17 private financieras in the Dominican Republic. None is as large as Dominicana, but each is tailoring its program in some degree after the leader's. Four of the new financieras were created by commercial banks to make loans for development risks that the commercial banks cannot make. On the other hand, the Financiera Dominicana has itself just acquired one-quarter ownership of one of the country's most important commercial banks, the Banco de Boston Dominicana.

The Financiera Dominicana, in its almost 15 years of operation, has made loans to over 50 percent of the country's largest private industrial and agricultural enterprises. While helping small industry was always one of its goals, it did not ignore large enterprises. Rapid economic growth was as basic a national need in the 1960s as it is today, an essential prerequisite to any successful broad-scale, small-enterprise effort. The Financiera rose to the challenge. One cannot go very far in the Dominican Republic today without seeing major plants on all sides, from manufacturing establishments to silos, industry after industry that was begun or modernized with capital and technical help from the Financiera Dominicana. And this will continue. There is no inconsistency in being active in the capital financing of both large and small enterprises, especially when one recognizes that a small industry program can only thrive within the framework of a growing national economy.

The Financiera Dominicana's long-held interest in small loans is today taking on new meaning and a more expansive (and expensive) future. While it has already helped many small businesses, as have others, many small businesses--probably the majority--remain to be helped. The task is never ending, because sufficient new employment creation is a need that can never be satisfied.

Still seeking to survive and prosper are a number of undercapitalized small industries working in a wide range of economic activities throughout the country. These enterprises are labor intensive, mainly in agricultural production, food processing, construction, tourism, and commercial enterprises. Many such industries still lack working capital and access to institutional credit. Over three-fourths of traditionally available credit has been provided by private lenders at interest rates at least double those charged by the financieras. Owners also typically suffer from lack of administrative and technical knowledge, access to markets, and inefficient production technology. That so many survive suggests that with

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technical assistance and access to credit at reasonable rates, significant increases in productivity, employment, and production can be achieved. Financiera Dominicana, the Development Foundation, and other financieras that combine credit with training and technical assistance are already proving this. The point here is simply that in terms of the universe of need, much remains to be done before all small entrepreneurs have ready and equal access to the kind of credit they need.<sup>43</sup>

Small businesses in the Dominican Republic are usually owned and managed by one family, have assets of between \$10,000 and \$250,000, employ an average of 20 workers, and have maximum sales of up to \$200,000. Approximately 45 percent of the manufacturing labor force is employed by these small businesses. In 1981, small business contributed approximately 56 percent of total manufacturing output, excluding sugar. Small businesses are playing a particularly important role in the nation's food processing industries, with 55 percent of all food processing and packing industries classified as small businesses.

Typically, the small owner is not a trained manager. He buys his own inputs, manages his labor, makes all administrative decisions, and sells the output. He does not consciously employ professional business administration and management techniques. Accounting and recordkeeping are irregularly maintained; thus, a businessman may have little knowledge of his actual assets and liabilities, his costs of production, or his profit margin. Other problems faced by the small industrialist include lack of adequate space, poor location, underutilization of equipment, lack of knowledge of potential markets, and inadequate marketing mechanisms. Also, planning for improvement or expansion is rare. Any planning is generally carried out on a very short-term, often day-to-day basis. Having solved these problems for hundreds of businesses, especially in the last 10 years, Financiera Dominicana is now eager to step up its efforts in the small-industry field and, therefore, has launched its new semi-autonomous entity, the Center for Small Enterprise Assistance (CEPESA).<sup>44</sup>

### 3. Center for Small Enterprise Assistance (CEPESA)

CEPESA is, in part, a creation of Financiera Dominicana, based on its own experience, and in part inspired by a similar

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<sup>43</sup>Centro de Investigacion y Mejoramiento de la Produccion Animal, CIMPA. Santiago, Asociacion para el Desarrollo, 1981.

<sup>44</sup>USAID/Dominican Republic, "Caribbean Basin Initiative Document."

unit, the Center for Training for Development (CEDE), pioneered earlier by the Dominican Development Foundation. Both reflect the conviction that training and technical assistance are essential prerequisites to safe lending for all but the largest and most sophisticated enterprises. CEPESA's program will focus on the small entrepreneur whose loan requirements are from a maximum of \$25,000 to a minimum of \$5,000. Financiera Dominicana's \$5,000 minimum loan thus meets the Dominican Development Foundation's \$5,000 maximum so that between them they close the circle. Financieras and commercial banks do not have upper limits. They will lend whatever amount a large borrower needs and can justify. Financieras then take over the principal lending role for that category of borrowers needing medium amounts and medium-to-long-term loans. The next lower band, the entrepreneur with an average of 6 to 20 employees and annual sales not in excess of \$250,000, is the one to which Financiera Dominicana has recently been devoting increasing attention, talent, and capital. CEPESA was created to assure that the loans made to this band of borrowers are based on increasingly better techniques. The bottom band of needful small entrepreneurs is the province of the Dominican Development Foundation, which is discussed below.

CEPESA, still a fledgling "foundation" wholly owned by Financiera Dominicana, has not yet determined the size of program it will strive for. It estimates the total target "market" in the country to be over 5,000 small businesses. CEPESA began with \$175,000 donated by Financiera Dominicana and hopes for a loan from AID. CEPESA has tentative plans to reach 200 of its target market through Financiera Dominicana loans in the first three years, averaging \$14,000 per loan. In the three following years, it proposes to reach 300 more, while also providing help to the other 16 financieras to add substantially to the impact on this target group.

The CEPESA idea began with the technical assistance division of Financiera Dominicana. As noted earlier, even assuming an educated and trained staff, they had learned that enterprises could lose their shirts borrowing too much for the wrong reasons while also poorly managing the loan funds and operations in general. They had learned, further, that money often was not an enterprise's real need; technical help or specialized training often was. They learned that granting only a loan could actually set a company back. Thus, the rule now is to regard a loan request as a symptom of an undefined need. The Financiera Dominicana, as a rule, refers loan requests to CEPESA for analysis. Other financieras may also do the same.

In addition to recommending loans tied to technical upgrading programs, CEPESA will help small industries solve their problems of technology, finance, administration, and the need for increased efficiency, production, and quality of products

and services. CEPESA will also present short courses and seminars in business management, sales, purchases, production, accounting, organization, and administration. In order to strengthen channels of credit and investment for small industries, CEPESA also proposes to undertake technical economic studies of bank credit for small industrialists.

Over the initial three-year period, CEPESA plans to identify and register 1,600 small industries in the area of Santo Domingo. In addition to the loans it will recommend be made by Financiera Dominicana, it will provide technical assistance, followup services, and assistance in obtaining loan guarantees from public and private institutions for as many of the 1,600 firms as possible. Also, feasibility studies will be prepared to examine the financial and technical aspects of new products and production techniques.

#### B. The Dominican Development Foundation (DDF)

The Dominican Development Foundation (DDF) had origins similar to those in the many other Latin American countries in which private sector-oriented foundations were created in the 1960s. Most had received help in getting started from the Pan-American Development Foundation of the Organization of American States (OAS), which in turn had had the strong support and financing of AID. Foundations in such countries as Chile and Guatemala, as well as in the Dominican Republic, had similar programs at the start. The DDF began in 1962 as the Social Welfare Institute, Inc., with aspirations primarily to promote rural development. By 1966, the institution's name had been changed to the present one, but it was still oriented toward rural development. All the countries in the hemisphere with similar programs sponsored by the private sector were urged to do so by the international agencies which were engaged in a concerted effort to secure for rural development a place in the overall development sun. Thus, for years DDF was focused on rural development.

Almost from the start, however, the Dominicans began to demonstrate their uniqueness. They saw the integral relationship among (1) community organization, (2) social development, and (3) economic development through community cooperation (e.g., farmers associations). To achieve the third, the first two areas had to exist first. And the Dominicans, unlike some others, had a clear vision of what it would take to get through stages one and two to reach the third stage. They helped rural communities organize integrated programs for citizenship participation, social service, and profitable farming, including modern cultivation methods and marketing. For the latter stage, they helped create farmers associations through which

they loaned money for agricultural projects. They did not lend to individual farmers but only to the associations, which in turn made individual loans. The farmers associations had (and have) an interlocking membership relationship with other civic and social service groups in their communities.

DDF also came to the conclusion early that the best way to start organizing rural communities for all three aspects was through a comprehensive training program that included the training of group leaders, all participants, and the specialized personnel needed to carry out the programs. And they organized followup training as the program progressed. It soon became apparent that although civic and social organizations are essential, the increase of agricultural production is the payoff. Here, technical help alone was not enough, and DDF thus became a very substantial lender of capital to the farmers associations, as well.

In short, DDF became a source of financing for rural group projects very early in its existence. In fact, DDF was the first financiera of any kind in the country.

1. Center for Training Development (Centro de Entrenamiento para el Desarrollo--CEDE)

DDF's work in the field, which now includes two urban programs as well as the rural program, is conducted basically by a staff of promotores, paraprofessional experts in agriculture or small industry and in community organization and development. Every group with which the Dominican Development Foundation works has one or more promotores assigned to it. These paraprofessionals provide technical help, arrange for whatever help they cannot themselves provide, recommend DDF loans to groups for projects that they have helped design, and arrange for loans and other assistance from other agencies with parallel field organizations, such as the Agricultural Extension Service. Promotores are directly supervised by fully trained technical and professional staff including agricultural engineers, crop and livestock specialists, and their urban-industrial equivalents.

The complex of interacting groups and individuals includes (1) community civic and social groups, (2) promotores and their technical supervisors, and (3) the hierarchical structure of DDF as an agency with staff able to plan, organize, finance, control, and direct a national operation.

It was recognized early that this would require a very strong institutionalized program to train everyone involved, from the members of the far-flung rural associations, through

the promotores, to DDF's top experts and executives in Santo Domingo. To this end, DDF established the Center for Development Training (CEDE). CEDE performs all the in-service and community-group training that the DDF's direct programs require. In addition, it has become a training center offering services to other programs in the country and internationally as well. It is also a research and publishing center focusing on the development process, related first, of course, to the Dominican Republic, but also with a global context.

CEDE has three major training sites: two in Santo Domingo (one located at DDF headquarters, the other in the nearby countryside where agricultural training programs are conducted), and one center in Santiago. Teams of trainers are constantly at work throughout the country providing special support and guidance in the field to community groups, farmers associations, and the promotores and their supervisors.<sup>45</sup>

By the late 1970s, DDF began to see that the poverty it had sought to alleviate in rural Dominican Republic was spreading to the cities. If its goal was to alleviate the low-income status of all poor Dominican families, it would have to extend its concern to the cities, to the smallest of urban private enterprises, and to the poorest of urban workers. As a result, DDF now has, in addition to its established rural programs, two new urban programs: (1) microenterprises and (2) city associations called grupos solidarios.<sup>46</sup>

## 2. Summary of the Current Program

DDF's principal activities today are in the following areas:

1. Organization of new groups through which DDF and the groups themselves may work together to achieve social, civic, and economic progress

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<sup>45</sup>Fundacion Dominicana de Desarrollo, Manual de Promocion y Financiamiento de FDD, Santo Domingo, marzo 1982; Fundacion Dominicana de Desarrollo, Manual Programa Educacion Participativa, Santo Domingo, n.d; Fundacion Dominicana de Desarrollo, "Organizaciones Voluntarias de Accion Social: 1978, 1979," Santo Domingo, 1979; Fundacion Dominicana de Desarrollo, "Programa de Equipos Agricolas," Santo Domingo, n.d.

<sup>46</sup>Fundacion Dominicana de Desarrollo, "Organizaciones Voluntarias de Accion Social: 1978, 1979."



2. Training focused on the skills needed by these groups; last year CEDE conducted<sup>47</sup> 47 training programs involving 1,262 participants
3. Livestock research and the development of new breeds
4. Rural group loans for agricultural production
5. Small business loans of from \$300 to \$5,000, made to very small stores, workshops, and service operations (eligible borrower's investment must be under \$10,000 and he cannot have more than six employees), to increase profits and create more jobs. (A larger entrepreneur's recourse is to the Financiera Dominicana whose lending level descends to a minimum of \$5,000.)

Among the small enterprises included in this new program are those called grupos solidarios, having from five to eight members. In one such group, the members, salespersons on the city streets, use tricycles to sell or collect items for ready sale. The loans are for a minimum of \$30 to a maximum of \$300 per group. They agree to work together, to repay together, and to borrow together. The objectives are to increase their efficiency in covering their markets and increase their profits. Group members are required to have a formal contract among themselves and with the DDF and to attend all the appropriate training courses at CEDE.

This program started with an AID study grant to analyze the micro-industry sector which resulted in an AID grant of \$498,810 for an initial three-year program. The amount is being matched by a local counterpart contribution of \$597,029. In addition, \$400,000 has been donated by other international organizations, and the Central Bank has extended an additional \$1 million line of credit for the program. Even without the latter, the initial phase of the program will provide 250 loans to microempresarios and 310 loans to solidarios. It will create 500 new jobs, one for each \$1,000 of financing made available, while reinforcing 1,860 existing jobs. It will benefit 2,110 micro-level businesses directly and 12,660 people indirectly. And that is just the beginning.

The Dominican Development Foundation has several other important activities that are being developed by special local Dominican interest groups in cooperation with European cooperating groups. These include PLANARTE, which is concerned with

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<sup>47</sup>Fundacion Dominicana de Desarrollo, "Programa de Adiestramiento en Gerencia y Administracion, Introduccion: Que es PAGA, la Empresa en General," Santo Domingo, n.d.

the design and production of ceramics, leather goods, toys and dolls, jewelry, and the marketing of these products; and the Scholarship Program for orphaned children of the Deutsche Welthungerhilfe (DWH) of West Germany. This program trains and domiciles homeless children, leading them to productive employment and independent lives.

The extent of foreign cooperation with the DDF should be noted. This past year alone, donors of grants included DWH, AID, PACT, the Government of Canada, the Chase Manhattan Bank, the Reserve Bank of the Dominican Republic, and members of the Board of the Dominican Development Foundation. These donations totaled over \$1 million. Loans were made by SOLIDARIOS (\$800,000), by the National Agricultural Bank (\$5,000,000), and by the Secretariat for Agriculture (\$3,500,000).

Tables 17 and 18 illustrate the good health and the robust rhythm of the activities of DDF in the past two years. Note that assets have risen to over \$10 million and that the annual budget, balanced in favor of income, has risen to almost \$1.3 million.

#### C. Financiera Agroindustrial (FINAGRO)

The Financiera Agroindustrial was founded in 1974. By that time, the success of the early financieras had dispelled many of the doubts held previously regarding this type of operation. The middle-level private sector was expanding, and risks had been reduced by the mechanisms created by AID and the Government of the Dominican Republic through the Investment Fund for Economic Development (FIDE) and the Central Bank.

The original objective was to finance agro-industry rather than agro-commercial enterprises. The emphasis was to help the country develop new industry directly related to the processing of agricultural products. The founders wanted to move away from the traditional plantation type of agriculture.

Since its origin, FINAGRO has made more than 1,500 loans amounting to more than RD\$46.5 million. Table 19 shows the distribution of the loans by economic sector and their respective amounts, as well as the average size of the loans within each sector. The agricultural sector accounted for more than 51 percent of the loans. The average size loan was RD\$12,900. FINAGRO has stimulated the development of the country's agriculture by helping small farmers organize cooperatives and associations. Another sector assisted by FINAGRO is livestock production, accounting for a little more than one-third of the total loans. General industry made up 6 percent of the loans, but represented more than 28 percent of the amount. These

three sectors combined accounted for 92 percent of the total number of loans made, and they encompassed a little more than 84 percent of the total amount.

Table 17. Dominican Development Foundation, Inc.,  
General Balance, 1980 and 1981  
(RD\$)

Item	Year Ending June 30	
	1981	1980
<u>Assets</u>		
Cash	171,868	230,089
Short-Term Deposits	518,000	808,000
Loans and Interests Due	8,207,211	7,324,158
Accounts Payable	320,863	369,425
Inventory of Articles for Sale	600,401	607,173
Investments in Mortgage Certificates and Others	56,983	32,000
Property and Equipment	818,565	796,512
Other Assets	24,278	27,940
	<u>10,718,169</u>	<u>10,195,297</u>
<u>Liabilities</u>		
Loans	5,447,822	8,216,304
Accounts Payable and Accumulated Expenses	249,842	516,660
Net Pension Plan Assets	205,990	174,185
Trust Funds	3,457,874	
	<u>9,361,528</u>	<u>8,907,149</u>
Total Estate		
Corporate Certificates Issued	65,100	59,900
Accumulated Income	1,291,541	1,228,248
	<u>1,356,641</u>	<u>1,288,148</u>
	<u>10,718,169</u>	<u>10,195,297</u>

Table 18. Dominican Development Foundation, Inc.,  
Statement of Income, Expenses, and Accumulated Income,  
1980 and 1981 (RD\$)

Item	<u>Year Ending June 30</u>	
	1981	1980
<u>Income</u>		
Donations	386,190	913,247
Interests on Loans	586,570	565,499
Gross Earnings from Sale of Medallions and Other Artifacts	161,003	169,629
Membership Fees	101,990	96,670
Other Income	<u>183,469</u>	<u>228,972</u>
	<u>1,419,222</u>	<u>1,974,027</u>
<u>Expenses</u>		
Salaries and Fringe Benefits	480,440	439,539
Other General and Administrative Expenses	424,489	515,674
Emergency Fund for Hurricane David--Aid to Victims	32,478	183,634
Doubtful Loans	51,410	396,349
Interests	322,442	273,821
Depreciation	<u>44,670</u>	<u>46,893</u>
	<u>1,355,929</u>	<u>1,855,910</u>
Balance of Income Over Expenses	63,293	118,117
Accumulated Income at the Beginning of the Year	<u>1,228,248</u>	<u>1,110,131</u>
Accumulated Income at the End of the Year	<u><u>1,291,541</u></u>	<u><u>1,228,248</u></u>

Table 19. Distribution of the Number, Amount,  
and Average Size of Loans Made by FINAGRO, by Sector,  
From 1975 to June 1982

Sector	Number	Amount (RD\$1000)	Percentages		Average Size
			Number	Amount	
Agriculture	766	9,869.7	51.2	21.2	12,885
Cattle	517	16,339.4	34.5	35.1	31,604
Industry	95	13,122.8	6.3	28.2	138,135
Poultry	35	904.7	2.3	1.9	25,849
Services to					
Agro-industry	30	1,606.7	2.0	3.5	53,557
Agro-industry	19	2,906.1	1.3	6.2	152,953
Tourism	18	1,264.1	1.2	2.7	70,228
Education	5	37.0	.3	.1	7,400
Other	12	445.6	.8	1.0	37,133
Total	1,497	\$46,496.1	100.0	100.0	31,060

Source: Financiera Agroindustrial, FINAGRO: Cédulas Hipotecarias, Santo Domingo, n.d.

In recent times the overall economy of the Dominican Republic has been affected by international inflation as well as by the recession. Every person interviewed in every financiera, bank, or savings and loan association alluded to the "present difficult economic situation." The available figures for FINAGRO reveal not only these difficult times in the country's economy, but also the shifts and adjustments made by the firm in relation to the average size of its loans. Table 20 shows that while the number of loans decreased from a base of 100 percent in 1975 to 13 percent in 1982, the average size of loans increased 365 percent during the same period. Even the average size of the loans for agriculture, the target sector of this financiera, reached a high of RD\$32,000 in the 1980-1981 period. For the 1981-1982 period, the average had dropped to about RD\$26,300.

In terms of geographic regions, FINAGRO's major concentrations of loans for the 1975-1982 period were in the South (30.8 percent), the Central Region (24.5 percent), and the Eastern Region (20.0 percent), accounting for three-fourths of all loans. In terms of amounts, however, the Central Region, the

most urban section of the country, received almost two-thirds of the total money loaned.

Table 20. Trends in Number of Loans, Amount Lent, and Average Size of Loans, 1975 to 1981-1982

Year	Number	Amount (\$1,000)	Average Size of Loans	Percentage Changes		
				Number	Amount	Size
1975	469	\$9,945.7	\$21,206	100.0	100.0	100.0
1976	419	10,474.9	25,000	89.3	105.3	117.9
1977	236	9,044.9	38,326	50.3	90.9	180.7
1978-1979	NA	NA	NA	NA	NA	NA
1980-1981	80	6,257.3	78,216	17.1	62.9	268.8
1981-1982	61	4,727.2	77,495	13.0	47.5	365.4

NA = Not available.

Source: Financiera Agroindustria, FINAGRO: Cédulas Hipotecarias, p. 15.

FINAGRO has aided in the formation of 20 to 25 new or small enterprises, plus the financing of a modern milk-processing plant. It has also worked with some 15 cooperatives and associations. Within the firm's original objectives, much effort was placed on a program for small farmers who had been organized into cooperatives. This project, however, did not turn out to be satisfactory. Lack of appropriate technology, weak working knowledge of cooperative management, and high operational costs on small loans were among the several adverse factors.

Information, training, technical assistance, and followup have been vital to FINAGRO's overall success. Adequate administrative and managerial capacities were regarded as indispensable. According to those interviewed, if a project manager or a borrower lacks such capacity, the financiera refuses to lend. "We only lend," an officer said, "to those who have administrative and managerial capacity." In this officer's opinion, the firm could not have succeeded to its present position if training and technical assistance, for both the firm's own personnel and for its clients, had not been provided. It was added that technical assistance for project implementation is becoming increasingly needed and at the same time more expensive.

The private sector in the Dominican Republic, according to FINAGRO's officials, has ample room for development. Judging from the experience of the last 20 years, they see the following possible scenario. Twenty years ago, the private sector was small. Investment outside the agricultural sector was unusual, and capital for small industry and construction projects was rarely available from the then-existing banks. The new concept that grew out of the progressive private sector's discussions with AID and others, that of "development" banking institutions and specialized training programs for new industries involving new technologies and greater managerial skills, brought rapid change. Such change, however, seems now to have reached a plateau. Several institutions which were revolutionary in the mid-1960s and early 1970s are now "old-line." "We need financial resources to reach the next stratum below, as this reaching down was initiated in the early sixties; we are afraid of risk at that level, forgetting that the same thing happened in our case; we are concerned about the lack of technology at that level, but that was also true in our case. In short, we need to approach the lower social stratum in the same or a similar way as we were once approached." This is precisely what Financiera Dominicana, CEPESA, and the Dominican Development Foundation are now undertaking to do, with strong international backing.

#### D. Financiera Citicorp

The main objectives of the Financiera Citicorp are to finance the improvement of small-scale industry and agriculture (except for traditional export crops). The future of the country is perceived as being dependent on the development of an agricultural sector that can feed the population and create new sources of employment, and an industrial sector that can satisfy part of the internal demand and at the same time generate export products. None of those interviewed believed that the import-substitution assumption is feasible as a long-term measure.

Among the main obstacles interfering with such development, the following were cited by Citicorp officials:

- Lack of financial resources
- The present marketing structure--e.g., lack of warehouse systems, inadequate transport systems, poor communication systems
- Lack of adequate insurance against such contingencies as plagues, bad weather, hurricanes, floods

- Lack of appropriate technology
- Lack of administrative and managerial capacity among those who need financial assistance
- Low educational level of potential loan users, which inhibits rapid transfer of appropriate technology

Financiera Citicorp functions much as do the others described in this category. It utilizes resources from Citibank, generated both domestically and externally, and loans from FIDE of the Central Bank, where the shared guarantee and the differentials on interest rates allow the company to make loans that would appear too risky for investment from its own private capital.

Other than some monitoring of loans, Financiera Citicorp conducts no technical training or followup. Applicants for industrial loans may be referred to technical or business management training agencies or to the universities. The Extension Service and other agencies of the Secretary of State for Agriculture are expected to serve the needs of that sector.

While statistics were not available on the total loan volume of this financiera, it had 16 loan applications approved through FIDE by the end of 1981 for a total of RD\$3.5 million. RD\$2.9 million for seven industrial loans was approved, giving an average of about RD\$400,000 per loan. RD\$500,000 was loaned for livestock project credit, primarily for feeder cattle operations and dairy installations. Two crop loan packages totaling RD\$66,423 were approved. Financiera Citicorp appears, thus, to serve middle- to large-scale investments.

#### E. Commercial Banks

In many developing countries, the participation of commercial banks in development activities is limited. They tend primarily to deal with low-risk investments. The commercial banks in the Dominican Republic conduct the generally lower risk loans from their own financial resources, but in addition, they may obtain funds for some higher risk projects through the Investment Fund for Development of the Central Bank. The evaluation team interviewed officials from 2 of the 12 commercial banks, one a branch of a well-known U.S. bank and the other a branch of a Canadian bank. The extent of their activities in both fields--regular commercial ventures and development-oriented investments--was probed to determine how this sector of the financial community operated within the system, and particularly what is its contribution to development.



In the cases of both regular and "development" loans, the banks use their own capital resources, both internally and externally generated, for the more secure large loans. Commercial banks lend in all the major economic sectors: agriculture, agro-industry, industry, commerce, and business. The financing of imports and exports is a substantial portion of their loan activity. Commercial banks do not provide training or technical assistance; their borrowers are judged already to have the needed skills and knowledge.

The second kind of operation of commercial banks, as reflected by the activities of the two that were studied, is in the less-secure area of financing beginning enterprises or helping small operations expand or modernize. These funds, while occasionally coming from the bank's private sources, are much more likely to be obtained through the FIDE arm of the Central Bank. The commercial bank prepares a loan package that may involve one or more related enterprises or even a cluster of borrowers from the same type of business. The application is submitted to FIDE with the required certifications (see section F.1 below on FIDE). If the application is approved, the banks can then begin to work with the individual borrowers to implement the use of the credit.

The commercial banks do not have sufficient technical staff to provide training and technical followup; instead, in cases where they feel additional technical or management skills are needed for an otherwise viable economic venture, they refer the client to one of the training and technical-assistance institutions discussed later. If its limited monitoring uncovers a problem, the bank can then refer the borrower to a suitable source for the needed technical assistance.

Commercial banks use a large proportion--nearly one-third--of FIDE's funds. However, the Government-owned commercial bank accounts for a high proportion of that credit, leaving the other commercial banks with about the same level of utilization as the financieras. The size of FIDE-funded loans through the commercial banks is larger than those of the financieras, although commercial banks also make many small loans. Their average, however, according to FIDE records, would appear to be somewhat larger than the financieras'.

In essence, the commercial banks studied and the information gathered about the others reflect a definite participation by the commercial banks in the country's development. Some of that participation is stipulated by law; enterprises with sufficient assets are expected to secure their own credit through commercial sources, and do so. The FIDE-commercial bank operations then supplement that by providing assistance for medium- and small-scale borrowers. The guarantee sharing by FIDE, the commercial banks, and the borrowers is expected to increase the

felt responsibility of the bank and the borrower, while at the same time to furnish sufficient stimulus to allow the expansion of this part of the economy.

#### F. Institutions Financing Housing and Construction

Housing is another area in which AID has played a significant role through the private sector and where training and technical assistance have been crucial to successful credit programs. The linking of training and technical assistance to credit is discussed at the end of this section; the story is unique to housing and construction and is well worth special treatment. In terms of actual needs, the figures presented may seem moderate, but taking into account what existed before 1962, the results are impressive. The main sources of housing financing in the Dominican Republic are presented in Table 21.

Table 21. Sources of Housing Financing

Source	Sector	Actual Target Group
Commercial Banks	Private	Upper and Upper-Middle Income
National Housing Bank	Private	Middle Income
Savings and Loan Associations	Private	Middle Income
Mortgage Banks	Private	Upper-Middle Income
National Housing Institute	Public	Middle Income
Institute for Relief and Housing	Public	Relief and Low Income

Up to 1962, before AID's participation in the housing construction sector, the few existing commercial banks did not lend for home construction but only to large enterprises involved with the country's major export crops, or to wholesale importers. At that time, in order to build a house, the full amount needed for construction was required. For a bank to lend money to build a house was considered, as a rule, too risky.

At the National Symposium on Construction that was held this year<sup>48</sup>, one of the papers stated that "before that year [1962], it was very difficult to build a private home with borrowed money to be paid for over several years." Another noted, "The condition existing in the country was that when anyone wanted to acquire or build a house, he had to have the whole amount, or count on a fabulous income which could guarantee a short-term loan."<sup>49</sup> It is from this starting point, then, that AID's assistance to the construction sector in the Dominican Republic, through both the private and public sectors, began.

With AID technical assistance, the Dominican Government, in a matter of six days in May 1962, passed three laws that resulted in the creation of the Instituto Nacional de la Vivienda (National Housing Institute) and the Banco Nacional de la Vivienda (National Housing Bank) and the subsequent formation of the system that led to the formation of the 16 savings and loan associations that now exist. AID responded promptly, making U.S.\$2.1 million available in loan funds through the National Housing Bank.

1. The National Housing Bank and the Savings and Loan Associations

One of the first savings and loan associations formed was the Asociacion Popular (People's Association), founded in 1962. One of its founders still vividly remembers the obstacles and opposition to its creation. The novelty of the system made many people skeptical, and some were powerful opponents. AID provided the soon-to-be founder a grant to study the system in Puerto Rico. Upon his return, and against the wishes of many, he and his associates established the association.

In order to become incorporated, the founders raised RD\$125,000. Consequently, the Board of Directors launched a promotion campaign, through which they raised \$165,300 from 155 participants. They became the first mutualists of the system. At that crucial time, AID provided useful technical assistance

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<sup>48</sup>de la Rocha, Ramon & Mena L., Pedro, Experiencias del Banco Nacional de Vivienda en Materiales y Metodos de la Construcción en la Republica Dominicana, Santo Domingo, Colegio Dominicano de Ingenieros y Arquitectos, marzo 1980.

<sup>49</sup>Molina Achecar, Luis, La Intermediacion Financiera y la Industria de la Construcción, Santo Domingo, Colegio Dominicano de Ingenieros y Arquitectos, marzo 1980, p. 1.

and a US\$1.5 million loan. Subsequently, the Board of Directors negotiated additional loans from other institutions with AID's guarantee. Table 22 summarizes the firm's growth over the 18-year period 1962 to 1980.

Table 22. Cumulative Growth Statistics of  
Asociacion Popular, 1962 and 1980

Description	1962	1980
Number of Loans	4	14,325
Amount Lent	\$30,000	\$189,000,000
Employees	4	269
Savers	155	199,300
Savings	\$166,300	\$99,000,000

Source: Speech by Enrique Armenteros Rios, President, Board of Directors, Asociacion Popular, 1980, pp. 4-5.

Asociacion Popular, in less than 20 years, has built about 200 urban developments which comprise, along with single houses, more than 20,000 living units. These examples illustrate AID's impressive contribution to the nation's development in the housing and construction area. Although uncalculable, the results also include the creation of new jobs and the emergence of new businesses and other related industries (e.g., home furniture, insurance companies).

Together, the National Housing Bank and the associations have created a new system for financing housing, have tapped available local resources, have helped expand the middle-income sector, and at the same time have contributed to the formation of a new generation of capable technicians, many of whom are already exploring the potential development of the larger proportion of the economic and social stratum, the lower income groups.

## 2. National Housing Institute (INVI)

The National Housing Institute's (INVI) history can be divided into three periods.<sup>50</sup> During the first period

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<sup>50</sup>Instituto Nacional de la Vivienda, "20 anos Trabajando por el Derecho a la Vivienda (marzo 1962-mayo 1982)," Santo Domingo, marzo de 1982.

(1962-1966), INVI worked in 22 small communities in the interior of the country and produced 2,176 low-cost housing units at a cost of \$4 million, or about \$1,838 per unit. The average award production was 544 units.

During the second period (1966-1978), INVI produced 5,020 housing units at a cost of \$22 million, or about \$4,380 per unit. The average annual production during that period was 386 units. During this time, the central Government also undertook massive urban construction that created some shortages of materials as well as of qualified labor that slowed down INVI's annual production.

During the third period (1979-1982), INVI's construction level reached 8,900 housing units. In addition, some 38,000 houses were repaired or rebuilt after the 1979 hurricanes. The total amount for the new units was about \$41.1 million, or about \$4,600 per unit.<sup>51</sup>

For the entire 20-year period, INVI's completed production was about 18,900 housing units, plus 38,800 rehabilitated units, at a total cost of \$82.2 million. INVI has 18,400 additional units now under construction. Table 23 summarizes INVI's accomplishments during this period.

INVI's experience proved invaluable for meeting the emergency caused by the 1979 hurricanes. From the experience gained in these last two national emergencies and the technical assistance provided by AID during the same period, INVI has developed new techniques and construction plans that can reduce the costs and, at the same time, accelerate production of low-cost housing. As a result, the new Government, according to some sources, is considering the undertaking of a massive housing construction program following new INVI formats. It proposes to build an average of 22,000 units a year over the next several years, an extremely ambitious endeavor.

### 3. Housing Demand and Other Housing Agencies

According to figures provided by INVI, housing construction in the 1960s was 141,800 units; for the 1970s it was 270,200. According to the same source, the formal housing sector built only 21,000 units in the 1960s, or about 15 percent of the total demand. In the 1970s, the formal sector was

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<sup>51</sup>Instituto Nacional de la Vivienda.

Table 23. Housing Units Built or Rehabilitated by INVI  
and Their Total Cost, 1962-1982

Year	New Housing Units	Rehabilitated/Repaired Housing Units	Total Cost (RD\$1,000)
1962	-	-	-
1963	285	-	592.5
1964	1,366	-	2,780.0
1965	525	-	610.1
1966	610	-	1,196.7
1967	700	-	1,317.2
1968	275	-	583.9
1969	819	-	2,245.2
1970	200	-	400.0
1971	338	-	1,635.6
1972	103	-	650.8
1973	207	-	1,569.9
1974	701	-	4,640.2
1975	235	-	2,466.7
1976	375	-	3,471.4
1977	36	-	249.9
1978	421	-	1,535.9
1979	377	12,500	1,130.8
1980	3,233	26,272	20,373.6
1981 <sup>1</sup>	3,116	-	14,449.7
1982 <sup>1</sup>	5,010	-	20,157.1
Total	18,932	38,772	82,177.2

<sup>1</sup>Includes only those expected to be completed during the year.

Source: Instituto Nacional de la Vivienda, "20 años Trabajando por el Derecho a la Vivienda (Marzo 1962-Mayo 1982)," marzo de 1982.

credited with the construction of about 58,700 units, or close to 22 percent of total demand. It is apparent that a large portion of current housing construction takes place outside the formal housing financial institutions. Very little is known about this informal housing sector. AID, however, recently undertook a research<sup>52</sup> study of this subject, and has published a preliminary report.

The housing demand for the first half of the present decade was projected to be about 165,000 units and, for the second half, to surpass 200,000 units, an estimate considered to be on the conservative side. The bulk of this demand (see Table 24) will be from households with incomes under RD\$300 a month.

Table 24. Estimated Housing Demand in the Dominican Republic in the 1980s According to Income Bracket

1977 Income (monthly) RD\$	Percentage of Households	Estimated Demand for Units		
		1980-1984	1985-1990	1980-1990
0-100	31.5	51,845	65,580	117,425
101-300	49.1	80,815	102,230	183,045
301-600	13.0	21,395	27,070	48,465
600+	6.4	10,535	13,320	23,855
Total	100.0	164,590	208,200	372,790

Source: U.S. Agency for International Development, Republica Dominicana Evaluacion del Sector Habitacional (volumenes I & II), Washington, D.C., Office of Housing, April 1980, p. 76.

At present, the main formal financing sources for housing are the commercial bank system, which serves a small but highly profitable group; the mortgage banking system, which tends to serve the needs of the industrial and upper-middle income sector; the BNV and its league of savings and loan associations, which concentrate on the middle- and moderate-income groups; INVI, charged primarily with the needs of the low-income

<sup>52</sup>U.S. Agency for International Development, Republica Dominicana Evaluacion del Sector Habitacional (volumenes I & II), Washington DC, Office of Housing, abril de 1980.

groups; and an agency, related to the Office of the Presidency, set up to provide immediate or urgent relief.

Table 25 shows the finance sources and their respective loan volumes for the years 1974 through 1978. It should be noted that the BNV association system (the one triggered by AID for the private sector) accounted for 45 percent of the total volume in 1978. The mortgage banking system, which was first initiated by the BNV, accounted for 20 percent of the total. Table 26 presents data on the contribution of the construction sector to GDP in the Dominican Republic and compares that to figures for Latin America as a whole.

#### 4. Problems and Challenges

A preference for investing in the most urban areas of the country has characterized the housing sector in the past 20 years. Both private and public institutions have concentrated their funds and efforts in urban centers, particularly Santo Domingo and Santiago, though INVI has done some work in rural areas. For the 1972-1975 period, AID's findings show that more than two-thirds of the construction of the formal housing sector was done in Santo Domingo.<sup>53</sup> This has clearly widened the quality-of-life gap between the urban and rural sectors and accentuated the influx of people from the rural areas into the cities.

Inadequate protection of agricultural land has allowed serious urban encroachment. At a time when the population is still growing fast and food production is dropping, the use of agricultural land for housing and urban development is short-sighted. More awareness about this problem is needed.

The latent inflationary factor in the construction sub-sector may lead to an increase in inflation and thus reduce the economic benefit originally brought by the subsector. Attention to this problem, however, does not call for rigid formulas. Awareness of the problem and free discussion of the issues can provide the relief and solutions needed.

Another area in need of improvement is that of public services such as water, sewage, and trash and garbage collection. Guidelines need to be developed for the physical growth of the urban areas.

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<sup>53</sup>U.S. Agency for International Development, Dominican Republic Shelter Sector Assessment.



Table 25. Sources of Finance For Housing in the Dominican Republic, 1974-1978  
(loans to be paid)

Source	Loans in RD\$ Millions					Percentages	
	1974	1975	1976	1977	1978	1974	1978
Commercial Bank System	43.7	49.1	64.8	72.3	69.2	33	22
Mortgage Bank System	5.1	10.5	19.2	32.9	64.0	4	20
National Housing Bank (BNV)	10.6	18.1	22.9	30.9	40.4	8	13
Savings & Loan Assoc. System <sup>1</sup>	40.1	56.0	76.4	87.4	103.3	30	32
Natl. Housing Inst. (INVI)	8.4	8.9	8.9	8.8	9.7	6	3
Nat. Inst. of Asst. and Housing (INAVI)	25.5	34.4	33.3	30.8	33.1	19	10
Total	133.4	177.0	115.5	263.1	319.7	100	100
% Change	100.0	132.7	169.0	197.2	239.7	-	-

<sup>1</sup>Together, these form the BNV association system.

Source: AID, U.S. Agency for International Development, Republica Dominicana Evaluacion del Sector Habitacional (volumenes I & II). Washington, D.C., Office of Housing, abril de 1980, p. 106.

Table 26. Contribution of the Construction Sector to GDP in the Dominican Republic and All Latin America, 1960-80  
(U.S.\$ million)

Year	Dominican Republic		Latin American		\$ Construction/GDP	
	Constr.	GDP	Constr.	GDP	D.R.	L.A.
1960	50	1,782	9,783	169,923	2.8	5.8
1970	143	2,923	15,365	294,943	4.9	5.2
1975	300	4,504	22,620	403,943	6.7	5.6
1980	390	5,705	31,441	529,493	6.8	6.1

Source: Inter-American Development Bank, "Economic and Social Progress in Latin America: 1980-81 Report, "Washington, D.C., 1981.

The greatest challenge ahead will be to find the ways and means to capture within the formal housing sector a significant portion of the housing construction now handled by the informal sector. Among those interviewed, some believed their firms could increase their market by 20 to 25 percent by extending their services to the stratum immediately below that which they have been serving. Part of the problem is a lack of information about potential markets. A greater knowledge of the various types of houses, locations, and income of the users, information that is not now gathered by the formal housing sector, could help in capturing a substantial portion of this potential market.

Another problem affecting the effort to meet housing needs is unemployment. The unemployment rate is 24 percent, and of those working, about 40 percent do not work full-time. Unemployed and underemployed households can hardly think of buying houses. The underlying hope here is that a more efficient and more dynamic formal housing sector will create new employment, will satisfy a portion of the housing demand, and will be profitable for those involved. But since the formal housing sector can satisfy only a small part of employment demand, and since its main function is to satisfy housing demands at a profit, other alternatives must also be explored. For example, one possibility might be the construction of housing units for low rent. In this way, those with low incomes can resolve their immediate needs for decent housing at a price they can afford. The formal housing sector, by expanding its activities to include rental housing, can give new sources of employment. Such a possibility, along with the formulation of the profile previously suggested, could be explored through a series of surveys of the country's housing needs, including market studies conducted by the concerned agencies.

Despite the problems that remain to be resolved, AID's impact on the private formal housing sector of the Dominican Republic during the last 20 years has been great. Early investments of under U.S.\$10 million have resulted in a capital mobilization of close to \$1 billion. In addition, a whole new institutional structure has been developed which, with cooperation and proper safeguards, can serve the Dominican Republic well.

##### 5. The Linkage of Housing Credit With Training and Technical Assistance

Housing and construction industry development, particularly housing, are included in this report for three reasons. First, is the great importance of the housing and construction industry to the national economy and to employment creation.

Second, is the key role AID has played in making housing and construction central elements in development in the Dominican Republic. Housing development through savings and loan associations and national housing banks and institutes is among the most important of AID's unique contributions to national development programs in the Dominican Republic and several other Latin American countries. AID technical assistance to host-country institutions has been intense and, while AID's own capital inputs have been modest, the results in terms of capital formation are perhaps second only to those in agriculture. Third, though carried out in a somewhat different way than in the other areas of development under review, training and technical assistance have been integral parts of the program. Without them, there could have been no program.

The role of AID technical assistance to the Dominicans has been central, indispensable, intensive, and highly effective. As in other Latin American countries, the savings and loan (S&L) system proved to be a "natural." The United States has enormous technical resources in this area, and AID has taken full advantage of them. As noted earlier, intensive AID assistance to the Dominican Republic made possible the climactic creation, in embryo, of a total national system in a period of less than one week.

In the process of developing the legislation and then aiding in its implementation, USAID Santo Domingo trained dozens of Dominicans, and many more were trained in the United States by U.S. savings and loan associations or by their national organization. Representatives of the latter also came to the Dominican Republic to help put the institutions of the new, full-blown national low-cost housing credit system on their feet. Thus, as the national housing bank and the housing institute became operational, with the primary task of creating S&Ls and housing projects, they in turn had to train the staffs of these new institutions and programs. Again, they turned to AID for help, but as the system grew it was the Dominicans who made possible its expansion by training the necessary new staff, usually in-house.

The housing and construction industries, of course, require skills from many professional and technical fields such as engineering, accounting, building trades, management, and secretarial staffs. For these needs, the housing credit system has relied on the products of the institutions discussed in Section IV, below--the economic development-oriented vocational-educational institutions. It has employed them to teach their basic skills; each trainee has had to be further trained, in-house, to function effectively in the housing finance and construction programs.

Just as AID had had, in the beginning, Dominican clients requiring technical help to set a program in motion, so the National Housing Bank, in turn, had S&L clients needing its technical help; this process has started a continuum of credit source institutions that are prepared to extend capital to the next level to adequately trained borrowers--down to the individual home-buying family. Home buyers are technical-assistance clients of their lender and require training efforts from the lender for house completion, maintenance, or expansion; for the acquisition of water and power services; and, above all, for training and technical assistance in community development and management.

To build low-cost housing requires high technology. To maintain such housing and help it grow as families expand and to assure that whole communities of families living in such housing projects may live in an environment of harmony and mutual self-help also require highly sophisticated techniques that meld continuing education with direct technical assistance. Such programs have been so internal to the housing sector that the elements of technical assistance and training, from top to bottom, which go on all the time as integral parts of program operations, have not been fully recognized or appreciated. Nevertheless, they are at the heart of the process. On the other hand, as noted earlier, the housing and construction industries are heavily dependent on vocational schools for meeting their manpower needs in the building trades and on technical and management training centers for the personnel needed to implement housing credit and community development programs. The housing and construction industries are, thus, in their own self-interest, strong supporters of those formal education and training programs and institutions that are relevant to their needs.

#### G. Public Institutions Providing Capital to the Private Sector

The 1961 recognition of the enormous needs for national development and the relatively small capacity of the commercial banks to finance them led to the creation of several institutions within the public sector to serve these urgent needs. The Government already had accorded to the Central Bank functions primarily related to servicing the accounts of the Dominican secretariats, autonomous institutions, and some agencies that operated separately from the general structure. The early 1960 thrusts of public and private sector institution-building brought even greater pressure on the Central Bank to monitor these activities and to ensure that the relatively scarce resources were utilized in the most immediately productive development activities. Those pressures led to the creation of some new institutions and to the expansion of the functions of

others; case studies of three of these follow as examples of the consequences of those actions and of the rules and regulations that were devised to govern them.

1. Investment Fund for Economic Development (Fondo de Inversiones para el Desarrollo Economico--FIDE)

In 1965, the Central Bank, the Presidency, AID, and several other institutions interested in internal and external finance designed a new arm of the Central Bank, the Investment Fund for Economic Development (FIDE). That Central Bank organ was approved by the legislature in May 1966 and began operations immediately with funds from the Dominican Government and loans from AID and, shortly thereafter, from other external sources.<sup>54</sup>

The legislation relating to the Central Bank, and thus to FIDE, prohibited them from dealing directly with individual borrowers. Instead, the bank operates through financial institutions accredited by the nation's Monetary Board. Thirty-six such public and private organizations have received approval by that directorate: commercial banks, Government banks, financieras, and savings and loan associations. These organizations were subject to the requirements of one of the three basic categories into which they were assigned. In the first category were the intermediary institutions that, for the most part, must have at least 60 percent Dominican capital; if a loan application is approved, that proportion must be maintained through the life of the loan. A second category includes some institutions that have operated at least 15 years in the Dominican Republic; while there were not many of these, they have been important in several development projects. In the third category are institutions that are given a waiver of the previous requirements if the projects proposed are of special importance to the national interest.

An application for credit must include a thorough description of the project, an exact specification of the type of ultimate beneficiaries, and a description of the agency's professional capabilities to manage the loans and the repayment. In addition, the application must contain the following documents:

- A technical and economic feasibility study prepared by a consulting firm

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<sup>54</sup>Banco Central de la Republica Dominicana, "El FIDE, un Fondo de Desarrollo del Banco Central de la Republica Dominicana."

- A summary project evaluation prepared by the intermediate institution
- The approval resolution by the governing board and the institution
- A detailed budget of all machinery, equipment, and raw materials needed
- Plans and detailed budgets for any construction involved, approved by the Secretariat of State for Public Works and Communications
- An audited financial status report from the beneficiary if expansion of the enterprise is contemplated
- Approval from the National Energy Policy Commission or the Dominican Industrial Technology Institute if the project operations will result in high consumption or savings of energy

The applications are forwarded to the Central Bank, which sends them to the technical departments of FIDE. If approved there, they are then submitted to the FIDE Committee on Credit for final consideration. FIDE personnel also have responsibility for periodic monitoring of the loan projects in progress.

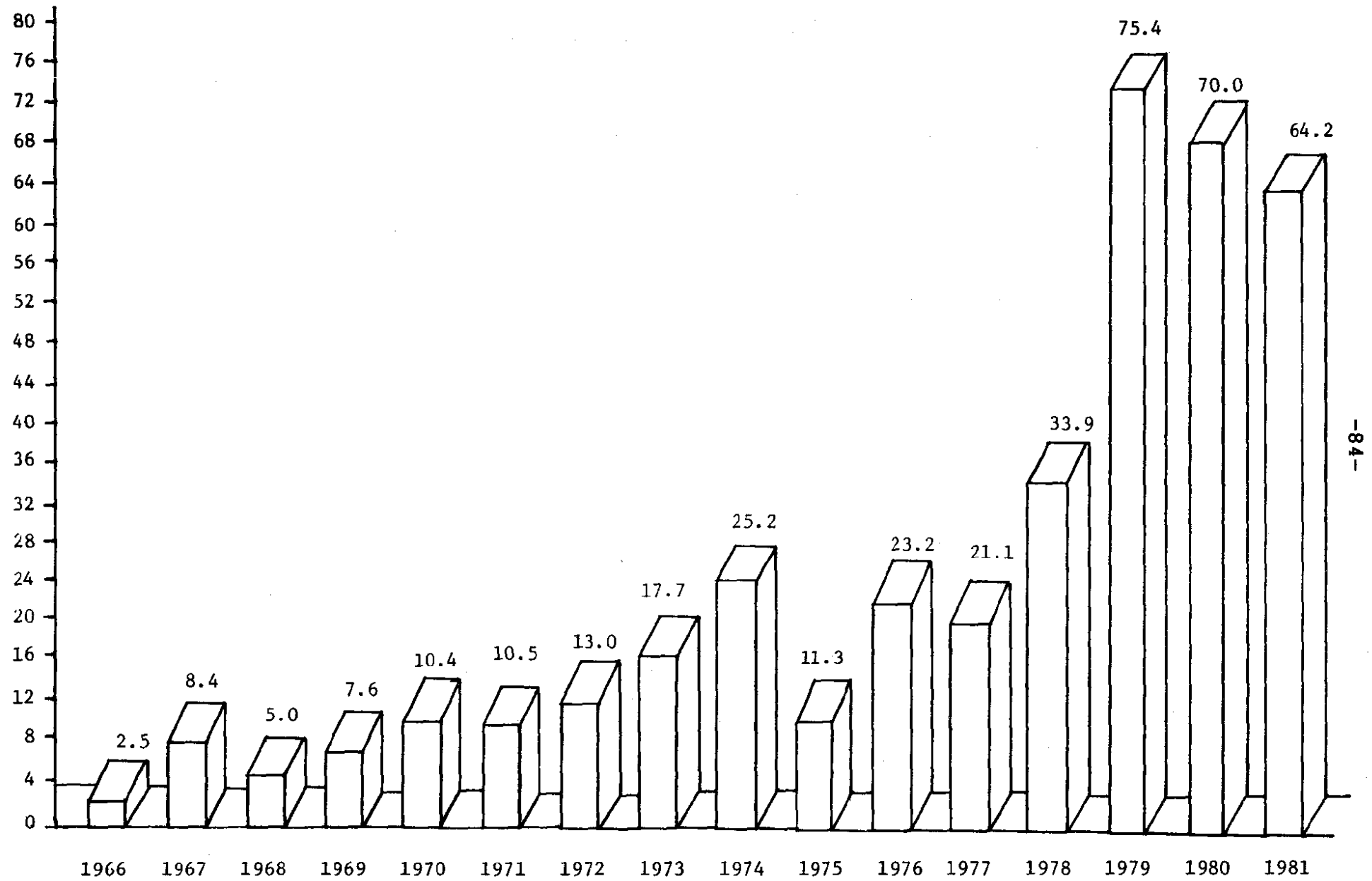
FIDE primarily serves industry, agro-industry, mining, agriculture and fishing and the processing of their products, and the transportation and services related to these areas. At any time that it is determined that there are sufficient private or other public resources for loans to any sector of the economy, FIDE may eliminate its services to that sector. In earlier years, for example, loan services to health, education, and tourism were terminated.

FIDE can make loans from RD\$10,000 to RD\$1 million, with the upper limit depending upon the economic sector for which the credit is intended. At the discretion of the FIDE officials and according to the type of project being funded, a repayment grace period of from one to five years may be allowed. The repayment period, including the grace period, can vary from 2 to 12 years, although in certain circumstances, FIDE may extend the loans.

The loan operations of FIDE have grown enormously since its founding, from RD\$2.5 million in 1966 to a high of RD\$75.4 million in 1979. (See Figure 1 for a graphic presentation of the FIDE loan history through 1981.) The 1979 high was in response to the reconstruction needs incurred as a result of the two disastrous hurricanes of that year. FIDE officials noted that, in part, the rise in loan amounts was due to general

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Figure 1. FIDE-Approved Loans, May 1966-December 1981  
(RD\$ million)



Source: Banco Central de la Republica Dominicana, "FIDE Informe Trimestral, Octubre-Diciembre 1981," Santo Domingo, 1982.

economic improvement but that, in addition, the earlier efforts of that organization to foster development were also reflected in the figures.

Although FIDE and the Central Bank are charged with stimulating equitable development throughout the country, emergencies (the hurricane damage to the south coast was severe but other sections suffered little or none), special projects (re-forestation and soil conservation in the mountains), and the exigencies of the growing populations in the urban areas dictate some modifications. Equitability, then, could not be calculated exactly; however, the percentages of the loans by region shown in Figure 2 demonstrate that no geographic section has been seriously neglected.<sup>55</sup> Agriculture (including crops, livestock, and agro-industries) has benefited from just about half the money loaned by FIDE; industrial development (other than agro-industry), education, health, tourism, and a few other small projects received the other half, although industry was by far the largest recipient in this category.

The loan demands of the several authorized institutions vary greatly according to their assigned or assumed development roles (see Table 27). The largest borrower during the last 20 years was the Reserve Bank of the Dominican Republic, a government-owned commercial bank, with nearly RD\$62 million of the RD\$344 million total. The Industrial Promotion Corporation and the Agricultural Bank, both Government finance service institutions, were second and third, respectively. Excluding the Reserve Bank, commercial banks borrowed RD\$106 million and the development banks (of the financiera type) received approved loans in the amount of RD\$94.5 million. In summary, 58 percent of the capital loaned was channeled through commercial banks and financieras that were not Government owned or controlled.

Evaluation informants spoke highly of the work of the development fund organization. Many noted that without the mechanism, much of the development achieved would not have been possible and that some sectors of the economy would have benefited little from Government or international donor loans. Many of the interviewees commented on the slow approval process. Some others suggested that the current 50-percent guarantee for loans to very small enterprises was too small for the risk involved. Recent increases in the interest rates for some investments were also decried by some individuals.<sup>56</sup> Nevertheless, the risk-sharing in its present form was considered

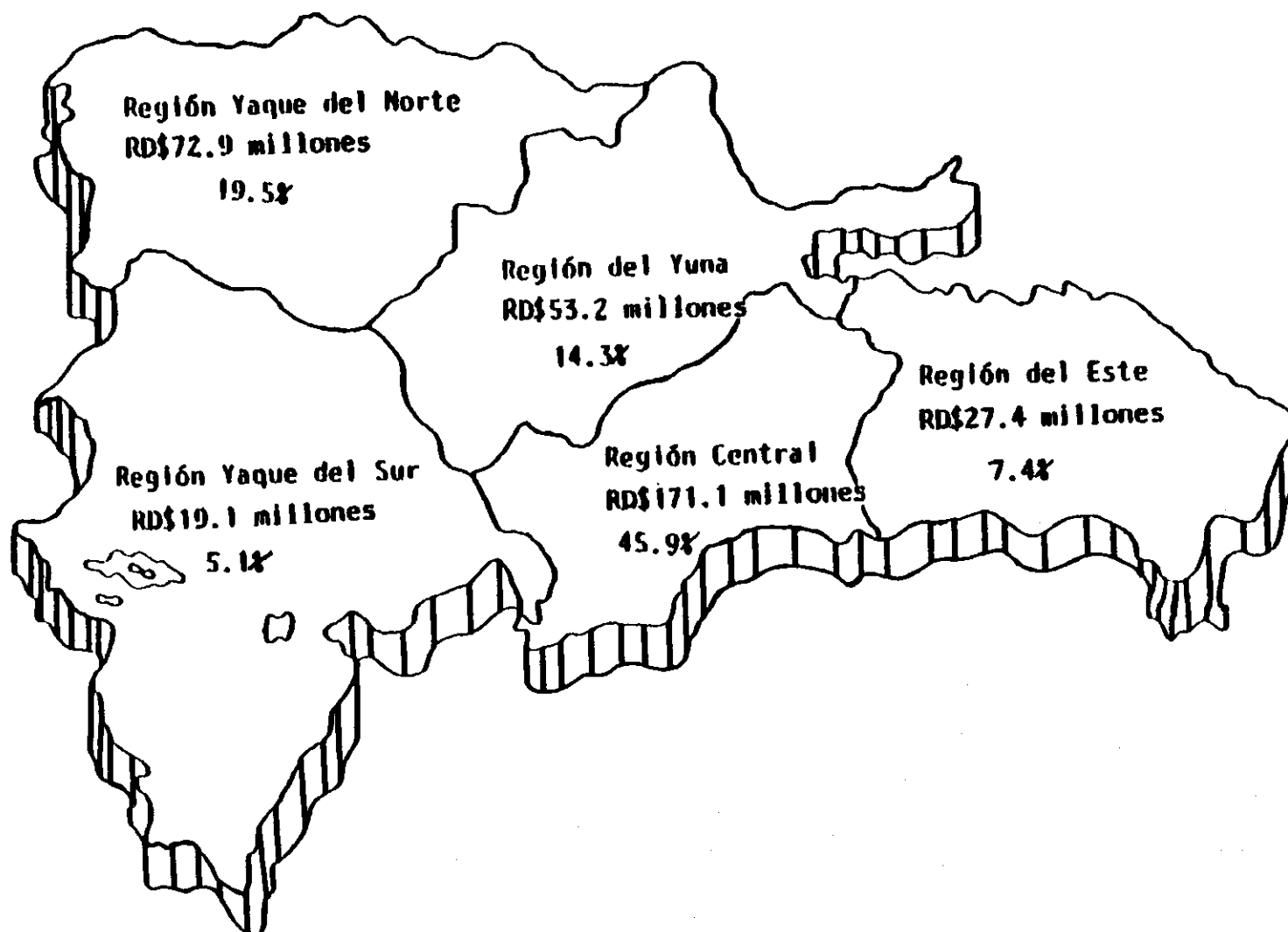
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<sup>55</sup>Banco Central de la Republica Dominicana, "FIDE Informe Trimestral, Octubre-Diciembre 1981," Santo Domingo, 1982.

<sup>56</sup>USAID/Dominican Republic, "Memorandum."



Figure 2. FIDE-Approved Loans Classified by Region, May 1966-December 1981  
(RD\$ million)



Source: Banco Central de la Republica Dominicana, "FIDE Informe Trimestral, Octubre-Diciembre 1981," Santo Domingo, 1982.

Table 27. Approved FIDE Loans Classified by Type and Name of Intermediary Institution, May 1966-December 1981<sup>1</sup>

Institution	Amount	%	Amount	%
<b>Commercial Banks</b>	<b>RD\$1,385</b>	<b>38.3</b>	<b>RD\$167,895,854</b>	<b>48.8</b>
Reserve Bank of Dom. Rep.	594		61,881,063	
Royal Bank of Canada	180		28,662,900	
Popular Dominican Bank	219		26,946,453	
Chase Manhattan Bank	128		15,312,089	
Bank of Nova Scotia	64		12,676,681	
Citibank	61		9,811,027	
Bank of America	27		1,688,149	
Metropolitan Bank	32		4,741,966	
Dominican Santander Bank	22		1,716,513	
Dominican Bank of Commerce	3		831,707	
Bank of Santo Domingo	23		2,564,662	
Dominican Bank of Boston	2		1,062,644	
<b>Development Entities</b>	<b>887</b>	<b>25.1</b>	<b>81,400,210</b>	<b>23.7</b>
Agricultural Bank of Dom. Republic	671		35,667,357	
Industrial Promotion Corporation	209		45,108,181	
Dominican Center for Export Promotion	7		624,672	
<b>Financing Societies</b>	<b>1,297</b>	<b>36.6</b>	<b>94,435,981</b>	<b>27.5</b>
Dominican Financiera Company	165		10,183,572	
Caribbean Financiera Company	24		1,892,910	
Continental Financiera Corporation	41		3,698,182	
Associated Finance Corporation	157		10,974,095	
Agroindustrial Financiera	370		18,877,595	
Citicorp Financiera	16		3,518,433	
Industrial Development Financiera	128		10,277,681	
Empresarial Financiera	84		9,507,460	
La Moneda Financiera	100		7,440,590	
National Development Financiera	47		4,940,480	
The National Financiera	33		5,594,969	
Development and Capital Financiera	38		2,032,110	
Industrial Financiera	46		2,688,626	
Inter-American Financiera	19		1,582,521	
Development and Cooperative Financiera	23		1,087,634	
Dominican Investments Corporation	1		139,143	
<b>Total</b>	<b>RD\$3,534</b>	<b>100.0</b>	<b>RD\$343,732,045</b>	<b>100.0</b>

<sup>1</sup>Reimbursements are not included.

Source: Banco Central de la Republica Dominicana, "FIDE Informe Trimestral, Octubre-Diciembre 1981," p. 107.

appropriate by most of the business leaders interviewed in the present study. They also noted that the current high U.S. interest rates, from which much of the capital assistance originates, had to be taken into consideration. They further emphasized that the requirements for training and followup technical assistance, both in enterprise techniques and in management (considered too strict by some institution officials), should not be reduced. The opinion was unanimous that risk-sharing and preparation for the monitoring of credit were indispensable to continued success. Many of this group felt that too much relaxation of these regulations would damage development. They frequently cited examples in which the elimination of the controls had caused institutions to make loans that were unrecoverable. Essentially, they see the current arrangements as the most appropriate for the present development strategy. Conversion of the system to the Government giveaway program was rejected by the business community and by most of the Government officials.

## 2. Industrial Promotion Corporation (Corporacion de Fomento Industrial--CFI)

The Industrial Promotion Corporation (CFI) was created as a Government agency in 1972 with a relatively limited fund destined primarily for the formation of two industrial parks and a free zone. Some industrial loans were processed, mostly to very large enterprises. Several problems, related mostly to the lack of loan monitoring, low payment recuperation, and allegations of fraud, had caused the corporation in the late 1970s to be denied funds until a "reasonable recuperation has been achieved and safeguards against future losses have been instituted."

In 1979, however, credit lines were again opened through FIDE of the Central Bank. The new investments were to be exclusively for small- and medium-size enterprises. Again, the funds were disbursed very rapidly, nearly depleting the lines of credit, which were subsequently closed again. Inadequate accounting procedures, unsubstantiated grace period exonerations, weak loan monitoring, and very low repayments were cited as the reasons for the denial of more funds. Further, no legal procedures had been instituted against those who were seriously in arrears or even those who had closed their factories.

Several changes in personnel were then instituted by the board, the corporate structure was reorganized, and some recovery suits were filed in the courts. The present management reported that it was "vigorously" pursuing collections and returning the money to the Central Bank. As an example of the stricter measures, the corporation recently placed a full-time

monitor in an enterprise. Only three loans have been granted in the past year; those were from the corporation's own resources.

Although the exact number of loans is difficult to ascertain, CFI reports a loan portfolio of RD\$27.2 million.<sup>57</sup> Estimates place a high proportion, perhaps one-third, in a group from which neither interest nor principal payments have been made for several years.<sup>58</sup> The low interest rate of 5 to 6 percent on the early loans and even the later 9 percent rate were lower than the inflation rate, so that the collections made represented a deficit within Government expenditures.

Corporate officials expressed the belief that the agency has a place in the industrialization process. With the current restraints on public expenditures, and probably even greater ones in the future, the exact nature of that role could not be specified. No decisions were expected until some time after the newly elected Government was installed in mid-August 1982 or until the Corporation's own reorganization, collection activities, and prosecutions in the courts produce substantial improvements.

The Corporation does not provide training or other than casual technical assistance to its borrowers. In fact, it does not require that any be supplied unless the original loan feasibility plan found deficiencies in the operator's capability to conduct the enterprise. The present corporate officials stated a lack of management skills as the most frequent cause of enterprise failure among those in their loan portfolio. It would appear, then, that either the analysis did not discover these deficiencies or else they were ignored. A corporate mechanism for analyzing skills and requiring training or technical assistance was highly recommended by many private and public officials.

### 3. Agricultural Bank (Banco Agricola)

The Agricultural Bank, the major provider of private rural credit, is the oldest technical member of the Central Bank

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<sup>57</sup>FIDE of the Central Bank reported total loans to the Corporation of over RD\$45 million; no informant would supply figures on the repayments, and the Corporation was not listed in the FIDE summary table of reimbursements. (Banco Central de la Republica Dominicana, "FIDE Informe Trimestral," p. 109.)

<sup>58</sup>Lofstrum, Michael, "Financial Analysis of the Corporacion de Fomento Industrial," Santo Domingo, February 9, 1982.

system of the Dominican Republic. The headquarters in Santo Domingo and branches in nearly every municipality make up the largest single financial network in the country. The Bank's target population includes all private farmers, the agrarian reform settlements, and some elements involved in the processing of agricultural products. The loan funds are derived from several sources: Government appropriations, FIDE, AID and other external donor loans specifically designated for the bank, some local currency funds derived from the sale of PL 480 Title I commodities, and reimbursements on its loans.

The general philosophy of the Agricultural Bank's operations is the provision of credit to worthy farming operations that will increase the production of food and other products and will help the entrepreneurs reduce their future dependence on credit. The general objectives of this finance institution are the following:

- Improve the efficiency and production levels of economic agricultural units
- Increase the income of the nation's agriculture
- Maintain the available food supplies at the level that will permit consumers to acquire them at reasonable cost

These objectives emphasize agriculture as a business that can be improved, resulting in more nearly satisfying the Dominican market and at the same time furnishing sufficient exports that are vital to the economy of the nation. The Bank also recognizes that it has a substantial responsibility for the nutritional status of the population, not only through reasonably priced food but also by stimulating more and diverse home-garden and small-plot production.

Credit from the Agricultural Bank is almost exclusively for small- and medium-size operations since large farmers have other sources of funds. Individuals may qualify for loans, but farmers are encouraged to apply through formal associations such as cooperatives, agrarian reform settlements, or informal groupings of neighbors or of specialized enterprise operators. Each application must contain a detailed description of the project, the intended utilization of the farmer's own funds, the credit needs, the anticipated profit from the increase of financial resources, and the repayment terms.<sup>59</sup>

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<sup>59</sup>Banco Agrícola de la Republica Dominicana, "Programa de Prestamos 1981," Santo Domingo, diciembre de 1980.

The plans must be approved by the appropriate technical personnel of the National Extension Service, the Agrarian Reform Institute, or of the regional or specialized organizations such as the Center for Animal Research and Production Improvement. The professional staffs of the local branches of the Bank review the applications and in cases of large or complicated plans, review by the Santo Domingo headquarters office may be required. The ideal application, according to the director of the Bank, includes long-term plans, which, once approved, can be handled entirely by the branch personnel. An example of this arrangement is that of Plan Sierra, which has one overall plan and a line of credit that can be extended to small groups for individual use so long as the intended funds are employed within the general plan. The result, of course, is more timely funding.

The Bank insists that credit be accompanied by training and followup assistance in technical agriculture and management. The educational program may be conducted through training courses of extended length, short courses, demonstration days, or individualized help on the farm. The National Extension Service and the Agrarian Reform Institute provide much of the instruction. The two Centers for Agricultural Development, the Center for Animal Research and Production Improvement, the faculties of agriculture of the universities, the Superior Institute of Agriculture, and specialists from the different departments within the Secretariat for Agriculture are also frequently involved. Many private finance, development, and producer organizations have agricultural specialists among their personnel; these often cooperate with the staffs of Government agencies in training programs.

In recent years, rapid deforestation and soil erosion have brought other agencies into the recuperation efforts. Health, education, public works, forestry, and water resources have joined agriculture in the conservation and recuperation efforts. In some cases cooperation among them is all that is required. In others, such as Plan Sierra, they are joined together in a single management system. The Agricultural Bank has been a vital member of this kind of team and is able to make loans for much of the conservation work.

The scope of the credit extended by the Agricultural Bank is enormous and has expanded rapidly in the last few years to try to keep production apace with the increasing population and the pressing needs for export earnings. The 1981 plan, as an example of the Bank's loan investment in agriculture, was estimated at nearly RD\$180 million.<sup>60</sup> Crop-related loans (excluding

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<sup>60</sup>Banco Agricola de la Republic Dominicana.

sugar) made up nearly 75 percent (RD\$145.5 million) of that amount, which emphasizes the importance of that aspect of agriculture (see Table 28). Animal husbandry, especially beef production, is being encouraged to reduce imports. Dairying, too, is increasing, although more slowly. Poultry and small-animal raising operations were traditionally of the "backyard" variety, but commercial enterprises are rapidly taking over production, to increase both its quality and quantity which were previously insufficient.

Despite the substantial investment of the Agricultural Bank, commercial banks, financieras, the Dominican Development Foundation, and private funds, agricultural production has not kept pace with the growing population, and some basic food crops have declined. Price controls, erosion, and rural-urban flight were mentioned as primary causes. The Agricultural Bank, then, with the mission of development through loans, has a complicated task to perform in the next few years by using its credit influence to foster increased and diversified production.

#### H. Summary of Selected Case Studies of Capital Lending Institutions

Of 17 possible choices, 4 financieras were selected, each reflecting a character and characteristic different from the other three, and each also being, with one exception, illustrative of other financieras like it. The unique financiera is, of course, the Dominican Development Foundation, which is both a foundation and a development bank and is the one institution among them that is willing and able to provide credit, training, and technical assistance to the poorest of potential borrowers. Its willingness to help poor borrowers go into debt with confidence extends to a program in which the minimum loan is \$30 and the maximum is \$300. Overall, DDF has no program that provides for loans in excess of \$5,000. Its goals are clearly focused on more equitable economic opportunities for all. Its safeguards are pre- and post-loan training and technical assistance for borrowers, and prudent borrower selection from a "personal qualities" (character) standpoint. DDF's officers and staff are dedicated to their social development goals and to not losing money. However, it is not entirely clear to the evaluators to what extent the foundation may cover loan-program overhead costs through other foundation activities. The loan program itself, however, is self-supporting and in the black. DDF is not illustrative of the other 16 financieras.

Table 28. Agricultural Bank Credit Plans  
by Type of Investment, 1981<sup>1</sup>  
(RD\$)

Sector	Amount
Food Crops	
Basic Food Crops	88,584,900
Industrial and Export Crops	51,153,920
Fruit	2,161,000
Vegetables	1,104,400
Others	2,500,000
Total Crops <sup>2</sup>	145,504,220
Animal Husbandry	
Livestock	19,959,200
Machinery and Equipment	466,600
Building Construction/Improvement	3,553,200
Feed Supplements	194,300
Pasture	1,309,800
Various, Including Medicines	19,000
Total Animal Husbandry	25,482,100
Poultry Husbandry	
Purchase of Poultry	5,400,200
Mechanization and Equipment	108,700
Construction	309,300
Feed	1,944,500
Other, Including Medicines	145,900
Total Poultry Husbandry	7,908,600
Beekeeping	504,000
Rabbit Raising	34,500
Others	125,800
Total, All Sectors	179,559,200

<sup>1</sup>The final report on the 1981 Bank operations was in press at the time of the data collection; the actual loans were said to approximate the planned amounts.

<sup>2</sup>Sugar is not included; all matters related to this product are handled by the Compania Estatal Azucarera.

Source: Banco Agricola de la Republica Dominicana, "Programa de Prestamos 1981, Santo Domingo, diciembre de 1980.



The closest to it in philosophy and objectives is the Compañia Financiera Dominicana, which is also the largest--larger than all the others combined. It is nonetheless a model for several of the smaller ones, including FINAGRO. Financiera Dominicana makes large loans without formal limits and medium and small ones down to a minimum of \$5,000. Its dedication to the principle of assuring training and technical assistance before making loans is as great as that of the DDF. Its community service objectives, including its willingness to train clients of other lenders, are equally firmly held. Financiera Dominicana is rapidly increasing its own wholly owned capability to provide training and technical assistance keyed to its and to other financial institutions' development-lending programs.

FINAGRO follows the same basic principles but is not self-sufficient in training or technical assistance capability. It relies on Financiera Dominicana and on technical schools, universities, and related resources to help bolster the borrowing ability of potential clients. In recent years, it has made fewer of the small loans that require heavy training and technical inputs on their part because costs became too high.

All three financieras mentioned thus far illustrate the point that the smaller the loan (project) the more the training and technical help required. Careful review of Section III will reveal that financieras seldom use training and technical help in connection with very large loan projects. Such borrowers normally do not need that type of assistance. Financiera Citicorp further illustrates this point. Lending to borrowers who need technical or managerial upgrading is not in their program. They pick clients who do not need help.

This is also generally true of the commercial banks, if the two cases reviewed are illustrative of the workings of other commercial banks, as they are said to be. On the other hand, it is clear that the commercial banks make substantial use of FIDE's Investment Fund for Economic Development for loans they regard as too risky to use their own private capital.

FIDE's plan to establish, with AID assistance, a technical assistance unit inside FIDE may well assist commercial banks in becoming as adventuresome with venture capital as successful client preparation will allow. Financiera Dominicana's practice of welcoming clients other than those who are already experienced and fully understand their own needs, and growing large in the process, is well known in the country. It is possible that the commercial banks, or at least some of them, and their captive financieras may soon begin to emulate Financiera Dominicana. With CEPESA already operational and soon to become semi-autonomous, with FIDE about to launch a

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program designed to help "qualify" more borrowers by giving technical aid to any borrower or client who desires it, and with substantial new sources of capital on the horizon (literally, since it is coming from abroad), the Dominican Republic may soon see the fruitful union of capital and training, first attempted by the DDF and Financiera Dominicana, permeate the banking system of the country.

Of the four public banks serving the private sector, three are clearly making substantial and effective contributions to equitable economic growth: the Housing Bank, FIDE, and the Agricultural Bank. All three have long since adopted the policy that a large potential clientele exists, many if not most of whom need training and technical assistance to become actual borrowers. That is where the market is.

The Housing Bank built credit-worthiness into its program from the start, recognizing that this required upgrading the skills of the entire continuum of participants in the system, from the staff of the bank itself through the S&Ls to the home-buying families.

FIDE has been an enthusiastic supporter of Financiera Dominicana's approach and has supplied that financiera and others with the capital to make them work. Now FIDE, also, is about to become a trainer-adviser of borrowers.

The model role for other sectors that is also played by national agricultural development banks throughout the hemisphere has been too often overlooked. The Dominican Republic is no exception. Its Agricultural Bank has for years combined the extension of credit with the extension of technical services and a rich ongoing program of continuing education for farmers and their families. The Financiera Dominicana, DDF, and FIDE did not invent the concept that with loan money, or even before, should go the preparation necessary to start using it and the continuing help needed to keep using it efficiently and productively. In the Dominican Republic, as elsewhere, it was the Agricultural Bank and its colleague Extension Service that pioneered this practice.

The Government's own public Industrial Development Corporation has been the least successful of the institutions discussed. It has, in fact, been far from successful. Competent observers have explained why, and in so doing illustrate the point the evaluators found most significant about the Dominican private sector development picture: the Industrial Development Corporation's current woes (arrears) are the result of making many millions of dollars' worth of loans without first identifying the skills and pre-loan needs of its borrowers, or their subsequent, post-loan needs for followup technical assistance. The conclusion thus has to be that those institutions that

skillfully tie the creation of borrower competence through training and technical assistance to credit eligibility have prospered. Those that did not, but who also prudently refrained from lending to anyone other than "safe" clients, have also prospered, but minimally, and are not contributing all they potentially could to development. And finally, those that have loaned money without first ascertaining the borrower's situation and needs are deeply indebted to their creditors--the taxpaying public.

#### IV. SELECTED CASE STUDIES: INSTITUTIONS PROVIDING TRAINING AND TECHNICAL ASSISTANCE

In explaining the application of education and professional advisory services to the credit process, brief accounts of some of the involved institutions were given. Many of these training and technical assistance providers are in the private sector and are for the benefit of the private sector. Most of them have received, directly or indirectly, AID grants and loans. Examples of these, then, described below will add to the understanding of the private sector in the Dominican Republic and AID's work with that sector in achieving development through the use of capital assistance in concert with training and technical assistance.

##### A. The Action Pro-Education and Culture (APEC) Group

The Action Pro-Education and Culture (APEC) group of institutions has grown steadily in its provision of training readiness, training, technical assistance, and systems of information generation. The separate institutions created by APEC are good examples of private sector contributions to the development process. While APEC itself was described in an earlier context, only brief information was presented on the functions of the training and technical agencies that have sprung from the original idea. The following cases more fully describe them.

##### 1. The Educational Credit Foundation (ECF)

The Educational Credit Foundation (ECF) is a private non-profit organization created by APEC in May 1967, with support from the Ford Foundation, AID, and the Pan American Union. It was organized to improve educational facilities in the Dominican

Republic, especially those related to the needs of business and industry for well-trained personnel.<sup>61</sup>

ECF was developed to finance economically needy students who had demonstrated intellectual capacity, in order that they might study at the university level or technical-vocational level at junior colleges. Unless such gifted but economically needy youth are given the opportunity for higher education, a substantial portion of the country's human potential would be lost or impaired. Preference is given to studies in sectors of highest priority to development.

In its short history, ECF has made a noticeable impact on Dominican higher education. It now administers funds received from the Dominican Government, AID, and the private sector. ECF also participates in many special programs such as the Latin American Scholarship Program of American Universities (LASPAU). Through the programs which ECF administers, more than 15,000 Dominicans have received loans for study in the Dominican Republic and 1,200 have received loans for study abroad. The majority have studied in the fields of agronomy, agriculture, engineering, and administration and management.<sup>62</sup> ECF is a member of the Panamerican Association of Educational Credit institutions that was created in November 1969.

ECF has the following functions:<sup>63</sup>

- To develop and administer a fund to be used for educational loans.
- To determine the professional and technical needs of the country, both present and future, and evaluate the human resources available and those necessary for the economic and social development of the country. Based on these studies, ECF makes a list of priority studies which it will support.
- To select students for studies abroad. ECF chooses those who show the greatest potential for academic success in a foreign institution. This is based on

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<sup>61</sup>Asociacion Panamericana de Instituciones de Credito Educativo.

<sup>62</sup>Accion Pro-Educacion y Cultura.

<sup>63</sup>From the Educational Credit Foundation President's 1981 Report to APEC.

the student's study and work experience, recommendations from university professors, personal interviews, and an objective examination.

- To select the most appropriate institutions of higher education and vocational training abroad for Dominican students. ECF provides a counseling service to help Dominican students decide if it is in their interest to study abroad, and to inform them about the programs, prerequisites, and expenses of foreign study.
- To obtain and supply information concerning scholarships and fellowships that are available to Dominican students.
- To grant short-, medium-, and long-term loans to Dominican students to study in universities or other institutions of higher learning in fields necessary for the economic and social development of the country.
- To supervise the academic progress of Dominican students who are benefiting from ECF loans. Students who hold ECF loans must meet the academic standards of the university as a condition for continuing the loan. ECF requests that the universities periodically send it official records of grades. ECF, in turn, offers the foreign university a central point through which academic as well as personal problems can be channeled. ECF will look for the source of and the solution to any problem which a Dominican student may have.
- To place the students who have benefited from ECF loans in positions in accordance with their new education and training. ECF contacts potential employers and maintains up-to-date information about employment opportunities available to Dominicans arriving from study abroad.

ECF began with a grant from APEC of \$200,000, a Ford Foundation grant, a loan from AID of \$1.4 million, and \$1 million from the Secretariat for Education. It has since continuously received private, AID, and Secretariat of Education grants. In 1976, AID also made a loan for \$5 million and on September 25, 1981, ECF received still another combined loan and grant from AID of \$5 million.

As of June 30, 1981, prior to the latest AID loan, ECF's total assets exceeded \$17 million (see Table 29). With the exact amount depending on how much of the AID loan has been drawn down and what other contributions have been received, it

Table 29. Educational Credit Foundation, Inc.,  
General Balance as of June 30, 1981  
(RD\$)

Assets		Amount
<u>Cash in Hand and in Banks</u>		311,356.47
<u>Loan Portfolio</u>		
In Process	810,550.46	
Due	<u>7,893,182.70</u>	
	8,703,733.16	
Less: Reserve for Doubtful Loans Charges	<u>549,607.94</u>	8,154,125.22
<u>Portfolio of Funds Administered for Third Parties: (Funds Administered for Other Agencies)</u>		
In Process	1,210,611.55	
Due	<u>6,711,369.19</u>	7,921,980.74
<u>Fixed Capital, Furniture, and Equipment</u>		
Real Estate	70,140.07	
Transportation Equipment	25,259.01	
Office Equipment and Furniture	304,943.27	
Improvements of Rental Property	<u>20,953.90</u>	
	421,296.25	
Less: Depreciation	<u>126,321.71</u>	294,974.54
Deferred Charges		71,457.81
Other Assets		482,726.01
Total Assets		17,236,620.79

Source: Educational Credit Foundation President's 1981 Report to APEC.

drawn down and what other contributions have been received, it is likely that ECF ended its 1981-1982 fiscal year on June 30, 1982, with total assets in excess of \$20 million.

ECF has been as successful in recuperating its subloans to students as it has been in raising funds. To date, only 79 loans of the more than 15,000 made have remained uncollected, with a value of \$113,500, or less than 1 percent of all funds loaned. Student borrowers are allowed three times the number of financed study years in which to repay after completing their studies. Each loan covers 100 percent of the student's assessed needs for travel, living, and study as programmed.

In addition to the ECF's own resources, it accepts and administers the scholarship fund of a number of corporations and even of universities who avail themselves of ECF's excellent selection and placement facilities (see Table 30). ECF employs a staff of 92, 30 percent of whom are professionals--university graduates, 5 with graduate degrees.

Today, 2,000 students are studying under ECF loans, 1,847 inside the Dominican Republic and 153 in foreign countries. ECF averages approximately 800 new loans a year of a value of almost \$2 million. About 12,000 borrowers are now in the process of paying off their loans. To enter a university or college program, a student must both be poor and have a high school grade average of 80 percent. Of all those currently studying under ECF loans, the children of illiterate parents make up 60 percent of the group.

## 2. Institute of Higher Studies (IES)

In the early 1960s, as the leaders of business and industry began seriously to consider ways in which to speed up the growth of the economy and to improve and expand their own businesses, their preference turned increasingly to the establishment of an institute to meet the overwhelming need for the preparation of better trained personnel for the nation's industrial, commercial, and financial institutions. This became APEC's first project, and the Institute of Higher Studies (IES) became APEC's first institutional creation. There had been debate as to whether IES or the Education Credit Foundation should come first, and there were strong supporters of each within APEC. ECF would be the more gradual, less direct approach, but perhaps the more capable of bringing about fundamental changes in the nation's educational system in the long run. IES had the virtue of being able to respond to some of the most serious needs as quickly as within one year.

Table 30. Educational Credit Foundation, Inc.,  
Deposits Portfolio for Third Parties Receivable  
as of June 30, 1981  
(RD\$)

Name of the Account	Amount
Universidad Autonoma de Santo Domingo	295,519.39
Universidad Catolica Madre y Maestra	55,172.52
Universidad Nacional Pedro Henriquez Urena	159,024.61
Centro de Estudios de Desarrollo Empresarial	291.04
O&M Universidad Dominicana	193,753.79
Escuela Agricola Salesiana	93,109.27
Instituto Dominicano de Periodismo	5,372.69
UCMM-FCE Administracion Publica	1,041.75
Instituto Politecnico Loyola	133,054.02
Instituto de Estudios Superiores (IES)	218,260.68
APEC-LASPAU	5,530.65
Instituto Dermatologico	2,016.28
Universidad Autonoma de Santo Domingo	3,219,344.12
Instituto Dominicano Gregg	11,992.70
Centro de Estudio Tecnicos (CETEC)	4,854.79
Instituto Tecnico Salesiano	15,454.65
Instituto Tecnologico de la Florida	8,909.97
Escuela Superior de Estudios Mercantiles	9,360.00
Miriam G. de Sousa (CETEC)	3,109.77
Asociacion para el Desarrollo (ISA)	75,125.38
Robert Zech Foundation	5,958.65
Asociacion Pro-Rehabilitacion de Invalidos	(3,119.49)
Instituto Dominicano de Seguros Sociales	497,952.35
Ayuntamiento de Puerto Plata	10,597.61
Font Gamundi, C. por A.	18,891.51
Instituto de Desarrollo y Credito Cooperativo	36,609.08
Ayuntamiento de Bant	78,381.91
Ayuntamiento de Santiago	4,566.26
Fundacion Gulf & Western Dominicana	372,273.88
Colegio Agricola San Ignacio de Loyola	2,022.42
Instituto Tecnologico de Santo Domingo	372,037.26
J. Gasso Gasso, C. por A.	6,790.18
Banco de Reservas de la Republica Dominicana	2,604.15
Total	5,915,863.93

Source: Educational Credit Foundation President's 1981 Report  
to APEC.



APEC, among other things, employed a consultant from Teachers College, Columbia University, whose recommendations came down where one would expect--on the side of IES first. In the end, APEC's congress of members concluded that both projects were of equally high priority, but that IES was a "little more equal" and should start first. It was decided that ECF would be established as soon as IES got underway.

It is worth noting here that all of the attention and interest of the country's business and industry leaders were focused on education and training as the most critical first need. The expansion of capital resources, while a recognized requirement from the start, was not the highest priority. In fact, the first financiera followed IES into existence by more than two years.

In September 1965, the first faculties of IES were established: accounting, business administration, and executive secretaryship. IES began as a junior college but was elevated to university status in 1968, and faculties of technology, arts, and languages have since been added.

IES was created to be, and has remained, a highly selective, high quality, specialized educational institution providing superior preparation for careers in commerce, industry, and banking. To date, over 2,000 students have received university-level professional degrees in accounting, business administration, marketing, engineering, and executive secretaryship. Nearly 500 of these graduates had received loans from the Educational Credit Foundation.

In its special 17th anniversary publication of May 15, 1981, the APEC board reiterated the statement of objectives that it had adopted on the inauguration of IES.<sup>64</sup> This statement of objectives is repeated here as a factual recording of its goals and because these goals illustrate well the theme and thread that run throughout this report of the private sector's concern that national development be carried out in such a way as to ensure the equitable enjoyment of its fruits.

The stated objectives of IES continue to be the following:

- Promote the preparation of the personnel required by the growing demands of agricultural, commercial, industrial, administrative, and educational activities necessary for the country's economic and social development

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<sup>64</sup>Accion Pro-Educacion y Cultura; Asociacion Panamericana de Instituciones de Credito Educativo.

- Stimulate the integrated development of the whole person through the pursuit of objective knowledge and truth
- Strive to help all to develop qualities of maturity, leadership, and abilities that will permit all to take part effectively in group and community activities
- Help youth to develop ethical, moral, and esthetic values of the highest standard
- Maintain the highest possible academic standards using the most advanced modern pedagogical techniques
- Cooperate with and within the national community in seeking solutions to the problems [of national development] as seen by both the authorities and the private sector, working together

Although the content of the courses has changed a great deal over the years, reflecting higher levels of sophistication, the original objectives continue as timely guidance for this educational effort.

### 3. Dominican Institute of Integrated Education (IDEI)

The Dominican Institute of Integrated Education (IDEI) is essentially a nonformal adult education program designed to broaden opportunities to secure a high school education through correspondence, radio, television, and other media a distancia. IDEI's courses follow the regular curriculum prescribed by the Secretariat for Education, starting with the last year of primary school (6th grade) as a base and proceeding all the way through intermediate school (8th grade) to the bachillerato, the high school diploma. The degree, Bachillerato por Correspondencia, is fully recognized by the Secretariat for Education for entry to the university.

IDEI was formed in 1972 by APEC because of the concern among its members--leaders of the Dominican economy and society--that far too many Dominicans had to leave school, for a variety of reasons, before finishing their secondary education. Some had to work, some could not afford to continue in school, some had no schools in their area, and some had dropped out of primary school and wanted to return, but were constrained by the embarrassing age difference between themselves and the regular students in the schools. APEC members viewed this curtailment of opportunity as both unfair to the youths concerned and a loss to the country. APEC's 1981 report estimated that the total potential target population whose needs are pertinent

to IDEI's program is 700,000.<sup>65</sup> The program is administered at 63 centers in 27 provinces.

Whether the instruction given is by correspondence, radio, television, or a combination, standard progress tests are used; professional personnel at the 63 centers administer the program with the help of trained local "monitors" (paraprofessionals) at the village or "group" level. The basic textual material used has been prepared by Dominican university professors. These materials are continually revised, updated, and adapted more fully to the media being used. In this process, AID is providing technical advisors in nonformal educational methods. This cooperative effort in education a distancia, in process now for several years, is about to result in completion of a fully redesigned basic textbook program. The results should prove of interest to other countries having similar problems.

IDEI had 2,631 students in its first year, 1972-1973. By 1980-1981, the number was almost 10,000.<sup>66</sup> This year, the total has risen to over 12,000. Since 1972, IDEI has served over 60,000 Dominicans. IDEI's goal was to reach the potential target of 700,000, but that target keeps moving up. Women make up 64 percent of IDEI's students; 63 percent of the students are from the rural areas; 59 percent work at a job while studying. The average period of stay in the program is 3.2 years. Some 32 percent major in agriculture, 22 percent in domestic science, 40 percent in vocational (trades and crafts) training, and 6 percent in office work.

IDEI's tuition charges per student are RD\$38 for a full 9-month year of study. Its costs are RD\$58 per student. The difference is made up through donations from APEC members, other private-sector donors, and such subsidy from the Government as may be needed to fill the final gap. IDEI, APEC, the private sector in general, and the Government agree that the cost to the student must be kept low. The needs of the public and private sectors are too great to allow unnecessary under-education because students cannot afford the tuition.

B. Catholic University Mother and Teacher (Universidad Catolica Madre y Maestra--UCMM)

The history of private university education in the Dominican Republic was one of centuries of frustration that was

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<sup>65</sup>Accion Pro-Educacion y Cultura.

<sup>66</sup>Accion Pro-Educacion y Cultura.

shared by most private sector institutions. Two Catholic universities were opened and closed, yet the idea of a university free of Government intervention persisted.<sup>67</sup> An energetic clergyman, Bishop Polanco, declining all Government assistance and in spite of many difficulties including a bombing, founded a seminary in Santiago de los Caballeros with the help of motivated businessmen and other people of that city. During the inauguration of the seminary on September 9, 1962, he announced the decision of the Dominican Episcopal Conference to establish a Catholic university in Santiago.

Despite the pessimism of some of the business community, but with a great deal of assistance from others, a large house was rented in downtown Santiago and the Catholic University Mother and Teacher began classes in philosophy and law on November 16, 1962. It began with 15 professors and 60 students. Later, land was acquired near the city and construction of the new central campus was begun. Although the growth of the university, both in the disciplines taught and the number of students enrolled, has required almost continuous construction, the campus now provides a pleasant academic atmosphere for the instruction and research conducted there.

The businessmen of the Dominican Republic have continued to play an important role in the development of the university. They serve as members of the board, provide funds and assist the university in obtaining others, and generally serve as a stimulus to the already deeply felt need to impart education that is based both in necessary theory and the practical application of the disciplines. Recognizing the high quality of the instruction, many philanthropical and international donors have contributed to the university's development. AID has been active in assistance to areas of research and teaching that are relevant to development. Among the institutions that have contributed to the university's development are UNESCO, the Inter-American Development Bank, the World Bank, the United Nations, the International Labor Organization, the World Health Organization, plus many Latin American organizations and national institutions such as the Association for Development, the Dominican Development Foundation, the Dominican Finance Company, the Dominican Industrial Society, and the Foundation for Educational Credit. Universities from all over the world have aided in several ways; the University of St. Louis, for example, maintained a close relationship with UCMM for many years. Governments have also assisted, individually and through the United Nations Development Programme.

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<sup>67</sup>Nunez Collado, Agripino.

The university includes many of the faculties that would be expected: science, letters, social and economic studies, engineering, business, and agriculture (the latter in cooperation with the Superior Institute of Agriculture). Further, it has recognized the importance of below-college-level education and provides special vocational courses. The secondary-level agriculture program of the Superior Institute of Agriculture and the Hotel School Montemar are examples of this thrust. Masters degree work is offered in Rural Administration at the Institute, and in Public Administration at a new center just opened in Santo Domingo.

Contrary to the tendency in many universities, UCMM actively works with nonacademic private- and public-sector organizations whose programs also directly address development. Plan Sierra, a reforestation and rural life improvement program, receives both administrative and technological assistance from UCMM. Close collaboration is maintained between the university and the Northern Center for Agricultural Development, a public agency. Similarly, the university is a partner, primarily through the Superior Institute of Agriculture, with the Center for Animal Research and Production Improvement. It contributes to several business and industry programs.

It is important to emphasize the reasons why so many national and international organizations have chosen to utilize Catholic University as a key vehicle for development in the Dominican Republic. The principal reason is its dedication to the development of both the private and the public sectors. It trains large and small businessmen and farmers; prepares bureaucrats; furnishes technical assistance to individuals, groups, and institutions; and collaborates with a wide variety of other institutions to achieve developmental goals. Its own status as a private-sector institution, and therefore relatively immune from changing political exigencies, adds to its credibility as an important arm of the Dominican private sector. At the same time, it fosters public-sector objectives.

1. Superior Institute of Agriculture (Instituto Superior de Agricultura)

The Superior Institute of Agriculture was founded on August 3, 1962, through an agreement of the Dominican Government, the Association for Development of Santiago, and AID. Beginning first as a vocational secondary program, it subsequently attained university status and later added post-graduate instruction. The Association for Development retains primary directive functions but plans to integrate the Institute into the Catholic University faculties as soon as possible. The Institute's administrative board is composed of

representatives of its own faculty, of Catholic University, and of the Association for Development.

The Institute faculty teaches all of the technical agrobusiness subjects, at both secondary and university levels. The latter are accredited through UCMM. Additionally, all non-agricultural subjects are taken at Catholic University. The combined effort of the two institutions increases the quality of instruction while making optimum use of resources. Early in the history of the Institute, an intensive instruction and technical assistance agreement was reached with Texas A&M University. Some faculty members from Texas A&M taught classes at the Institute. As soon as possible, Dominican faculty members received scholarships to enroll in the several related degree programs on the Texas campus. Many of the first graduates of the secondary school also obtained Texas A&M degrees. Later, scholarships were granted to other U.S. institutions and to the Inter-American Institute for Agricultural Cooperation, both for specialized courses and for the masters degree. Several have completed doctoral degrees at U.S. universities.<sup>68</sup>

The secondary program at the Institute is residential; the students live, take classes, and work on the campus. "Learning by doing" is an integral part of educating youth in the practical tasks of advanced agricultural practice. The usual high school subjects are also studied: language, history, geography, mathematics, social science, and science, as well as vocational courses in agriculture. Upon graduation from the three-year program, the students receive a recognized high school diploma.

The baccalaureate program (Ingenieria Agronomica) also combines a basic foundation in science, social studies, and humanities through the courses at UCMM. The Institute courses include agrobusiness administration, agricultural economics, agricultural education, horticulture, agricultural mechanization, forestry resources, agrarian reform administration, irrigation, and food technology. The new graduate program offers a master of science in agrobusiness management.

In addition to its close working relationship with Catholic University, the Institute collaborates actively with other

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<sup>68</sup>In a recent USAID/Dominican Republic report, 100 of the 103 Texas A&M University graduates were found still active in Dominican education, agriculture, business, industry, Government, and related services in Latin America. It is probably the highest achievement record of any U.S. scholarship program in preparing professionals who return and remain to work in their home country.

related institutions. It assists and, in turn, receives teaching and research assistance from the Northern Center for Agricultural Development of the Secretariat for Agriculture. It has similar arrangements with both the Center for Animal Research and Production Improvement and Plan Sierra. The agrobusiness applicants in the Small Business Assistance Program can also obtain help from the Institute. Further, it conducts many cooperative activities with the National Agricultural Extension Service. Other important contributions to development are the many seminars, conferences, and short courses conducted with special groups to help advance their knowledge. Farmers, too, participate in many special short courses.

The U.S. Agency for International Development has been an especially active partner in the progress of the Institute, even beyond its first development grant. Grants and loans for special facilities, technical assistance through the provision of professors, contributions to the library holdings, and loans for student scholarships were included. The progress of Dominican agro-industry has led to continuing demands for faculty with higher and varying preparation, and AID has proposed to provide funds to train more professors in graduate programs in U.S. universities. It considers the past response of the Institute as a guaranty of future benefit to the institution and to Dominican agriculture.

Assistance has also been obtained from other bilateral and international agreements. Technical assistance and scholarships from the Organization of American States, the United Nations Development Programme and the Food and Agriculture Organization, and from individual governments have been utilized. Loans, especially from the Inter-American Development Bank, have been very helpful. Study loans from the Foundation for Educational Credit have benefited many students.

The enormous investment in the Institute over the 20 years of its existence was seen by all the interviewed officials as paying large dividends in the preparation of professionals for Dominican agro-industry and thus for the continued improvement of the nation's agriculture. Its graduates permeate every part of the private and public sectors related to agriculture. The graduates are considered to have a solid theoretical background together with an unusual practicality in the application of agriculture, science, and technology to agrobusiness and agro-industry. The success of its progress from a small secondary vocational school to university status and recently to the post-graduate level as well was explained by informants as a result of the joint efforts of the Association for Development, Catholic University, the Institute faculty and students, AID, and the several other agencies and institutions whose financial and technical assistance helped make that progress possible.

2. Hotel School Montemar (Escuela Hotelera Montemar)

Tourism has grown rapidly in the Dominican Republic, especially in the last five years. The relatively small base of that industry made quality expansion difficult, especially if the nation were to compete with such long-term expertise as is evident in Jamaica, Barbados, Trinidad and Tobago, and Puerto Rico. With assistance from the Association for Development and the Government, UCMM acquired a small hotel in Puerto Plata on the scenic north coast of the island. Help from business, industry, Government, AID, and the International Labor Organization made it possible to install a school to train chefs, waiters, maids, and receptionists. The school operated first in whatever space was available, but construction of permanent facilities is now almost complete.

The entire effort of this vocational program is of direct benefit to the private sector. Hotels and restaurants have quickly employed the first two groups that have graduated, and new hotels under construction are already negotiating with the school to prepare more staff. Additionally, pressure to train management personnel is also being applied. The program augurs well for the students in training, the businesses that have employed and will continue to employ them, and the nation, which seriously needs the foreign exchange and generally increased income from a growing tourist industry. It is already apparent that the small number (80) that can be trained in the nine-month course is insufficient to meet the demand; measures to increase the number are being taken.

3. Center for Public Administration (Centro De Administracion Publica)

In recent months, Catholic University Mother and Teacher has inaugurated a graduate Center for Public Administration in Santo Domingo with a masters-level program in public administration as its first effort. This contribution to public-sector improvement is seen as part of a continuing private contribution to the development of Government services. Short courses and seminars will also be provided. A competent, well-trained staff has been employed and will be assisted by professors from the home campus. While the program is still too new to evaluate, the history of UCMM suggests that its chances of being effective are good.



C. Small Enterprise Assistance Program (Programa de Asistencia a la Pequena Empresa--PROAPE)

The Small Enterprise Assistance Program (PROAPE) is the result of the common interest of five Dominican institutions in assisting the creation and expansion of small business, agro-industry, and general industry operations:<sup>69</sup> Association for Development, Central Bank of the Dominican Republic, Industrial Promotion Corporation, Superior Institute of Agriculture, and Catholic University Mother and Teacher. Additionally, Appropriate Technology International of the United States provides consultant services.

The small-enterprise program operates as an integrated service in the areas of administration, technology, and credit. Its stated objectives are the following:

- Facilitate the growth of small enterprises and thereby increase employment opportunities
- Improve social conditions through skills training of management and workers via short courses and workshops
- Promote appropriate use of local products and merchandise
- Benefit small farmers by manufacturing appropriate agricultural implements to augment farm production
- Channel credit and investment funds toward small enterprises
- Provide access to goods and services among the urban and rural poor

The program is designed primarily for enterprises employing from 2 to 20 workers whose net profits are less than RD\$30,000, although in certain cases, others may qualify. Receptivity to change and potential for development are important selection criteria.

Relatively low interest is charged on the credit for the development period. Technical assistance is furnished free the first year and a modest charge is assessed thereafter. To date, 10 association projects have been approved and 50 more are under consideration. Most of the loans and applications are for modernization or expansion and are generally intended

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<sup>69</sup>Asociacion para el Desarrollo, "Memoria Anual."

to increase production or import substitution. Some possibility of additional exports has been incorporated, but those are viewed as secondary, supplying local demands. PROAPE is considered by institutions involved as a major force for future development. While some risk is involved, with guaranties shared by PROAPE and FIDE, the expected recuperation rate is high. Funds from private sources, FIDE, and Banco Agricola have been used to date. AID is proposing a loan to expand this work.

#### D. Joint Venture in Information Generation and Transfer

The combination of public and private resources in a single organization to enhance economic growth is unusual in any country, even in the United States. Several important examples of this arrangement were observed in the Dominican Republic. One of these was experiencing problems: The Northern Center for Agricultural Development (CENDA).

Two cases of smoothly operating arrangements are also incorporated in this report in illustration of practical private-public cooperation: the Center for Animal Research and Production Improvement (CIMPA), and Plan Sierra, a combined soil-water conservation and rural development program. The continuing, direct participation of the two sectors in both projects is seen as a necessary ingredient in these efforts.

CENDA is a training center and furnishes substantial technical assistance followup; credit is not necessarily involved. CIMPA and Plan Sierra, however, intentionally tie four ingredients into a single package: information generation, training, credit, and followup technical assistance. AID and several other external donors have provided technical and/or capital help to all of these projects.

##### 1. Northern Center for Agricultural Development (Centro Norte de Desarrollo Agropecuario--CENDA)

The Northern Center for Agricultural Development (CENDA) was established as an institution of the Association for Development of Santiago. The personnel gathered information on successful agricultural practices in other parts of the Dominican Republic, the United States, and other countries, and then conducted field tests to determine their applicability to the area. Those that were successful and that could be modified to

function well under local conditions were then chosen for demonstration.<sup>70</sup>

The demonstration facet operated primarily through cooperating private farmers who were willing to try the new agricultural practices. These techniques, coupled with the necessary financing, were divided into three levels: traditional, medium, and high technology. Plots were designed so that farmers continued their traditional practices on some of them, while the remaining plots were cultivated using medium or high technology, or demonstrations of both. CENDA provided the capital for the innovation demonstrations plus a great deal of technical assistance. At harvest time, neighbors, farmers from other areas, and agricultural professionals were invited to a demonstration day. The practices were described and the results verified and compared. Extension agents subsequently used these farms for field day expositions for their clients.

When the Association for Development decided that CENDA was functioning well, it turned the entire operation over to the Secretariat for Agriculture. Since then, budget priorities have caused CENDA's resources to decline considerably, severely restricting the number of crops and farms that could be attended, as well as the geographic distribution of the demonstration plots. Public and private informants felt this was a great loss. Because of their large client load, the extension agents cannot take over all of the intensive training and technical assistance involved. Too, the Extension Service does not have capital to invest in such a program. Farmers are often unwilling to bear the cost of trials when they have not been convinced of their economic viability. Consideration should be given to strengthening this vital link between research and extension.

2. Center for Animal Research and Production Improvement  
(Centro de Investigación y Mejoramiento de la Produccion  
Animal--CIMPA)

The Center for Animal Research and Production Improvement (CIMPA) is the result of an Association for Development plan to strengthen animal husbandry in the Dominican Republic. A joint Secretariat for Agriculture and Association for Development project, CIMPA conducts practical research on beef and milk cattle, goats, sheep, swine, chickens, and ducks. Fresh-water fish culture is to be added later. CIMPA devises and tests

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<sup>70</sup>Secretaria de Estado de Agricultura, Centro de Desarrollo Agropecuario, Santiago, 1979.

equipment and buildings that meet the livestock needs of this tropical climate but at the same time represent the least possible investment. Feeds,<sup>71</sup> technologies, and management practices are also studied. Capital and technical expertise are extended by AID; the Peace Corps has assigned three volunteers to the project.

Several years ago, African swine fever swept across the island of Hispaniola. In an unusually successful campaign, Haiti and the Dominican Republic slaughtered every hog, instituted strict controls on sanitation, and carefully monitored repopulation imports. A major facet of CIMPA's work is the importation of fever- and other disease-resistant strains and disseminating animals to farmers.<sup>72</sup> Cattle production has centered on dual-purpose native cattle, called criollos, because of their high adaptation to the native climate, diseases, and insects. Extensive dairy and meat production experiments<sup>73</sup> and management studies<sup>74</sup> are underway. Goats and sheep for meat production are included.<sup>75</sup> Ducks, laying hens, and meat birds are incorporated into the poultry project.<sup>76</sup>

This vital center, which might be termed an experiment station in the United States, combines many functions: information generation, breeding-herd expansion, publications about the work being done, and a wide variety of training programs. CIMPA contains a dormitory, dining room, and classrooms so that farmers and professionals can be intensively trained in the results of the work. Demonstration and field days are conducted in cooperation with the Extension Service. When a farmer is ready to invest in breeding stock, equipment, and/or buildings, the resources of the Agricultural Bank or other intermediaries

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<sup>71</sup>Centro de Investigacion y Mejoramiento de la Produccion Animal, Santiago, Asociacion para el Desarrollo, 1981.

<sup>72</sup>Centro de Investigacion y Mejoramiento de la Produccion Animal, "Proyecto de Caprinos y Ovinos," Santiago, 1981.

<sup>73</sup>Rouse, John E., Renacimiento del Criollo en Republica Dominicana, Santiago, Instituto Superior de Agricultura, septiembre de 1981.

<sup>74</sup>Centro de Investigacion y Mejoramiento de la Produccion Animal, "Hatos Cooperadore," Santiago, 1981.

<sup>75</sup>Centro de Investigacion y Mejoramiento de la Produccion Animal, "Proyecto de Caprinos y Ovinos," Santiago, 1981.

<sup>76</sup>Centro de Investigacion y Mejoramiento de la Produccion Animal, "Proyecto de Fomento Avicola," Santiago, 1980.

can provide the needed credit. Followup technical assistance is furnished by CIMPA and Secretariat for Agriculture personnel. The combined efforts of the private and public sectors in this complete service institution are paying large dividends for the future of animal husbandry in the Dominican Republic.

### 3. Plan Sierra

Several sections of this report have included references to the serious deterioration of the forests, soils, and water in the Dominican mountains. Resolution of the problems is considered of paramount importance by private and public officials. The incoming President has publicly expressed his concern.<sup>77</sup> Technical research on the exact extent of the damage is being conducted.<sup>78</sup> In addition, some extensive conservation and reforestation efforts are underway or in the planning stage.<sup>79</sup> Capital and technical assistance is being provided by the public and private sectors of the Dominican Republic, AID, OAS, FAO, BID, and IBRD.

Plan Sierra is the largest and operationally the most advanced of the programs. This public and private effort involves the Secretariats of State for Agriculture, Health, Education, and several agencies from public works and hydro-electric energy. The Agricultural Bank and the Dominican Bank of Commerce are directly coordinated into the plan. The Santiago Association for Development, the Catholic church, Catholic University, and the Superior Institute of Agriculture are important contributors, as are CENDA and CIMPA. Several other banks, financieras, and private businessmen are

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<sup>77</sup>Jorge Blanco, "Negativo el Balance para Preservacion de Foresta en RD," El Nacional de Ahora! 11, 13 de julio de 1982.

<sup>78</sup>Naciones Unidas, Programa para el Desarrollo, "Asistencia del PNUD Solicitada por el Gobierno de la Republica Dominicana: Programa de Fortalecimiento Instruccion, Santo Domingo, diciembre de 1981; Republica Dominicana Instituto Nacional de Recursos Hidraulicos y el Instituto Interamericano de Cooperacion para la Agricultura.

<sup>79</sup>Instituto Interamericano de Cooperacion Para la Agricultura; Santos, Blas, El Plan Sierra: Una Experiencia de Desarrollo Rural en las Montanas de la Republica Dominicana, Turrialba, Costa Rica, Centro Agronomico Tropical de Investigacion y Ensenanza, IIICA, 1981; United Nations Development Programme; U.S. Agency for International Development, "Annual Budget Submission: FY 1984."

involved. Central Bank's FIDE has provided a substantial credit line to Plan Sierra through intermediary institutions.

Plan Sierra is designed to protect the existing watersheds, reforest many areas, construct major soil and water conservation installations, and teach farmers how to build terraces and drainage channels on their own land. Forest tree nurseries are maintained and the seedlings are planted on both public and private land. The development of agriculture in the area has a high priority since the income of the residents must be protected and enhanced. The production of coffee, cacao, sisal, and the basic food crops is facilitated through training, credit, and technical assistance.

Plan Sierra includes a residential training site where farm families can go for orientation to the work and receive intensive short courses. The program deals almost exclusively with small groups of rural residents, and the three-day orientation sessions are conducted for the members of the specific group, which speeds up the training.<sup>80</sup>

Plan Sierra is important not only for the integrated development it fosters but also for its special management plan. Plan Sierra is one institution and, in effect, the professionals from the Government secretariats, the banks, and the other institutions involved are seconded to the Plan, forming an integrated management. A board composed of private individuals and public officials sets the policies and outlines the direction of the development efforts. A director and his staff from all the other agencies carry out the work.

Plan Sierra is a massive and complex effort. However, the evidence thus far is that the integrated services and management approach to integrated development has improved rapidly in the Plan's short life.

#### E. Other Training and Technical Assistance Agencies

The needs for technical and professional skills have spawned, in addition to those already described, several other potentially productive agencies. Although the private sector was involved in their design, they are organized within the Government structure. Three of the new agencies in this category were examined.

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<sup>80</sup>Plan Sierra, "Resumen Estadístico de las Actividades Durante los Primeros 20 Meses de Operaciones: Periodo Abril de 1979 a Diciembre de 1980," San Jose de las Matas, 1981.

1. Dominican Institute for Industrial Technology (Instituto Dominicano de Tecnologia Industrial--INDOTEC)

The Dominican Institute for Industrial Technology (INDOTEC) was created as an arm of the Central Bank to provide technical assistance to both public and private agencies. A nominal price is charged for its services. Its main goal is to assist in the industrial development of the country. Revenue covers about 10 percent of the total cost of its operations. INDOTEC reflects the view that the development of the Dominican Republic requires the direct participation of the entrepreneurial sectors below the current middle-income groups and that to achieve this, more technical assistance is needed to help them succeed.<sup>81</sup>

The focuses of this technical assistance include chemical and other scientific analyses of industrial and agricultural products, and food processing. INDOTEC selects and disseminates technical bibliographies that provide answers to current problems faced by the newly emerging industrial sector at its broadening base.

The Center for Training and Development of Human Resources, one of the several components within INDOTEC, sponsors seminars, workshops, and lectures addressing problems at different levels within industry. In the past several years, its activities included 256 workshops and seminars and more than 60 lectures on different technical topics. About 4,900 professionals participated in the seminars and about 2,900 more attended the lectures.<sup>82</sup>

INDOTEC's present staff includes more than 200 individuals. Many of its professionals have received training abroad. Its services are highly sought by different industries. INDOTEC's scientific and technical analyses enjoy a high reputation not only among industrialists but also among the public in general. The institution is rapidly becoming an unofficial quality-control certifier and a standards, weights, and measures agency.

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<sup>81</sup>Instituto Dominicano de Tecnologia Industrial (INDOTEC).

<sup>82</sup>Instituto Dominicano de Tecnologia Industrial (INDOTEC).

2. Institute for Technical and Professional Preparation  
(Instituto para la Formacion Tecnica y Profesional--  
INFOTEP)

The Institute for Technical and Professional Preparation (INFOTEP) was created by the Government with International Labor Organization (ILO) help over a year ago. Its objective is to serve as one more agency that provides technical assistance to industry. For this purpose, a 2-percent tax has been levied on the payroll of each industry in the country to finance the institution, a worldwide ILO model. The felt need to create INFOTEP is another confirmation of the value attached to technological assistance in partnership with capital assistance. However, there is concern in the private sector that not only is the tax a heavy one, but INFOTEP, as a Government institution, may tend to act independently of the perceived needs of industry, working on what INFOTEP thinks is good for industry rather than on what industry needs. INFOTEP began operation without making a study of industrial needs or the extent to which they can be met. There is also the feeling that the substantial payroll tax, combined with the new agency's ambitious plans, may suggest that INFOTEP will try to replace rather than supplement the private-sector organizations already in the field.

One suggested way to avoid the dangers of overlapping responsibility and of going too far too fast is the creation of a kind of "FIDE system" to be applied to the country's industrial technical-assistance system. The system could comprise a special fund (which would include the 2-percent tax, a matching portion from the Central Government, plus loans and grants from international donors) and the creation of a mechanism to administer this fund on a basis comparable to FIDE's treatment of the investment funds entrusted to it.

3. National Technological Institute (Instituto Nacional de  
Tecnologia--INTEC)

The National Technological Institute (INTEC) is an academic institution at university level with strong teaching, research, and analysis capabilities. Its programs of training and research are within the milieu of national industrial technology development and transfer. INTEC also provides consultant services to firms, associations, the Government, and external agencies.

AID has contracted with INTEC to conduct the baseline data survey of Dominican industry, agriculture, and commerce that it and the Central Bank need to design a long-term program to



provide substantially expanded credit resources for development. This two-year study, which was to have been completed in September 1982, will furnish data for several joint Dominican Republic-AID projects aimed at promoting private-enterprise development, especially small industries, with an emphasis on agro-industry.

In summary, Dominican private enterprise, as well as public and private development programs across the board, are served by a number of specialized development-training institutions that are supplementary to the regular, formal public schools and university systems.

The evaluators selected 14 of these for descriptive analysis. Those chosen are the best examples of programs dedicated to private-sector development. Three were sponsored by a businessmen's association in Santo Domingo (IES, ECF, and IDEI). The Catholic University group comprises four others, covering all university subjects plus special programs in agriculture, hotel management, and public administration. Four more were created by a businessmen's group in Santiago (PROAPE, CENDA, CIMPA, and Plan Sierra). The final three are Government institutions devoted to assisting the private industrial and agro-industrial sectors (INDOTEC, INFOTEP, and INTEC). Together with the high school and vocational school systems, the universities, and other technical schools, they provide rich resources for helping to meet the private sector's needs for the training and technical assistance that are recognized in the Dominican Republic as precedents to safe lending or borrowing.

Eleven of the 14 institutions described in this section were created by the private sector to meet its need for trained personnel, research, and technical assistance. Three were created by Government to serve private-sector needs in these same areas. The contributions that these 14 institutions make are crucial to the adequacy of the intellectual and skills resources of the country's private enterprises and to these enterprises' abilities both to improve the quality and quantity of production and to embark upon new ventures. Without the resources that these institutions provide, it would have been impossible for the programs of the financial institutions discussed in Section III to have achieved the size and scope that they have.

## V. CONCLUSIONS

Several fundamental conclusions can be drawn from this analysis of the relationship between capital investment and training and technical assistance: (1) the most productive relationship is an intimate one; (2) such a relationship exists

in the Dominican Republic, making possible unusually high levels of investments; and (3) of the two resources, capital and human, the latter has been the prime mover in the Dominican Republic. The Dominican Republic experience is so conclusive that it would be reasonable to expect that training will normally be found to be a necessary precondition to new investment.

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